# FINANCIAL TIMES

World Business Newspaper

TUESDAY APRIL 9 1996


Start the week with...

**Glaxo Wellcome**

*Implementing a mega-merger*

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**Internet horrors**

*Crime, porn, privacy invasion*

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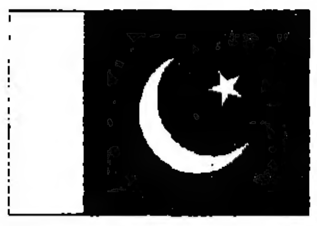


**Today's surveys**

*Pakistan*

*Asian telecoms*

Separate sections

## US chemicals group to invest $1.5bn in bid to boost sales

Huntsman, the privately-owned US chemicals company, plans to invest up to $300m in the UK as part of $1.5bn worldwide investment programme intended to double its output by the end of the decade. Roughly half the UK investment will be spent on Huntsman's biggest British plant, at Carrington in northern England, which makes polystyrene. The company aims to double its global output of polystyrene to 1.17m tonnes by the end of 1998. Huntsman is the second-largest producer of the plastic in the US. Page 6

**Viacom joins Kirch in five-year alliance:** Viacom, the US entertainment giant, and Kirch-Gruppe, the German media group, have formed a five-year strategic alliance aimed at giving Viacom a foothold in Germany and strengthening Kirch's grip on the distribution rights of US-produced films and television shows. Page 21

**Sinn Féin may take part in poll:** Sinn Féin, the political wing of the Irish Republican Army, signalled that it might contest next month's elections to a peace forum, raising hopes that proposed all-party talks on the future of Northern Ireland would go ahead in June. Page 18

**Bildt delays decision on Serbs:** Carl Bildt, who is responsible for implementing the civilian side of the Dayton accord on Bosnia, has given the go-ahead to an international donors' conference for reconstruction in the war-torn republic but said he would decide tomorrow whether the Bosnian Serbs would be invited. Page 2

**UK minister appeals to Japan on imports:** UK trade and industry secretary Ian Lang urged Tokyo to deregulate its import markets as he left London with more than 100 senior executives on Britain's largest trade mission to Japan. Page 6; Japan's central bank listens, Page 4

**Verdict boosts case against Andreotti:** The use of Mafia members co-operating with Italian justice under witness protection programmes has been vindicated in a test case trial in Palermo. The outcome may have important consequences for the trial of former prime minister Giulio Andreotti, accused of having links with the Mafia. Page 2

**Volvo,** the Swedish cars and trucks group, remains commited to its $500m US investment programme in spite of a 36 per cent drop in North American truck sales in the first quarter. Page 19

**Industrial conflict in west at 50-year low:** Industrial conflict in the western industrialised world has fallen to its lowest level for more than 50 years, according to the latest international statistics on strike activity. Page 3

**Digital phone use surges:** A sharp decline in the price of digital cellular mobile phones and improvements in coverage have helped lift the number of cellular subscribers in western Europe by more than 60 per cent to almost 22m. Page 19

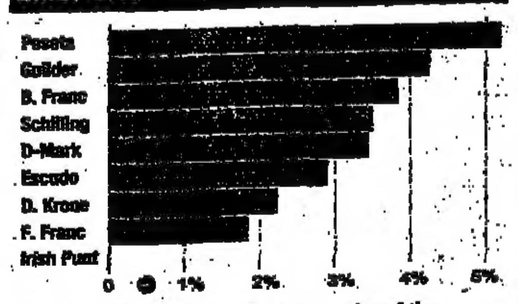
**Mercury suitors line up to be counted:** The list of potential buyers for Mercury Communications in the UK, chief domestic rival to British Telecommunications, is lengthening as negotiations which could lead to a merger between BT and Cable and Wireless intensify. Page 19; Lex, Page 18

**Rentokil,** the UK industrial services group, said it had not made a decision about whether to raise its hostile takeover £1.9bn ($2.8bn) bid for rival BET. Page 20

**Chrysler** has agreed to sell its defence electronics and airborne systems businesses to Raytheon for $475m. Page 21

**European Monetary System:** In the quiet run-up to the Easter weekend, there was no change to the order of currencies in the EMS grid. There was also very little change in the spread between the strongest and weakest. After a cut in interest rates the peseta dipped below Pta84 against the D-Mark for the first time since December 1994. The French franc is also at a two year high against the D-Mark. Martin Wolf, Page 16; Currencies, Page 27

**EMS: Grid** April 4, 1996




*The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.*

| ■ STOCK MARKET INDICES | | |
|---|---|---|
| Tokyo: Nikkei | 21,424.24 | (-271.60) |
| New York: lunchtime | | |
| Dow Jones Ind Ave | 5,548.48 | (-134.40) |
| S&P Composite | 638.67 | (-17.19) |
| ■ US LUNCHTIME RATES | | |
| Federal Funds: | 5¼% | |
| 3-mo Treas Bills: Yld | 5.143% | |
| Long Bond | 88⅝ | |
| Yield | 6.898% | |
| ■ GOLD | | |
| New York Comex (June) | $400.7 | (396.6) |

| ■ STERLING | |
|---|---|
| New York: lunchtime | |
| $ | 1.53105 |
| ■ DOLLAR | |
| New York: lunchtime | |
| DM | 1.47675 |
| FFr | 5.0355 |
| SFr | 1.1918 |
| Y | 107.38 |
| Tokyo close Y 107.8 | |
| London markets closed | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Albania | LEK 220 | Germany | DM4.00 | Lithuania | Lts 15.00 | Qatar | QR13.00 |
| Austria | Sch37 | Greece | Dr400 | Lux | LFr75 | S.Arabia | SR12 |
| Bahrain | Din1.250 | Hong Kong | HK$20 | Malta | Lm0.85 | Singapore | S$4.30 |
| Belgium | BFr75 | Hungary | Ft230 | Morocco | MDh16 | Slovak Rp | Sk65 |
| Bulgaria | Lw130.00 | Iceland | IKr230 | Neth | Fl 4.75 | S. Africa | R12.00 |
| Cyprus | C£1.20 | India | Rs75 | Nigeria | Naira90 | Spain | Pta250 |
| Czech Rp | Kc60 | Israel | Shk7.90 | Norway | NKr20.00 | Sweden | SKr20 |
| Denmark | DKr18 | Italy | L3200 | Oman | OR1.50 | Switz | SFr3.70 |
| Egypt | E£5.00 | Japan | Y500 | Pakistan | Rs40 | Syria | S£65.00 |
| Estonia | EKr 22 | Jordan | JD1.50 | Poland | Zl 5.50 | Tunisia | Din1.750 |
| Finland | FM15.50 | Kuwait | Fils 650 | Portugal (mainland) | Es240 | Turkey | L80,000 |
| France | FFr11.50 | Lebanon | LL3,000 | | | UAE | Dh12.00 |

## Strong job figures revive worries that inflationary pressures could erode bond values

# Wall Street tumbles on rate fears

By Lisa Bransten in New York

Rising long-term interest rates sent US share prices sharply lower in early trading yesterday on the heels of Friday's surprisingly strong figures for March employment growth.

The creation of 140,000 non-farm jobs in March followed a 624,000 jump in February, worrying investors that the Federal Reserve's efforts to spark economic growth by lowering interest rates were over – at least in the short term.

Those figures revived fears that inflationary pressures could emerge and erode the value of longer-term bonds.

There was no equity trading on Friday, in observance of Good Friday, but bonds tumbled in an abbreviated session. Yesterday the benchmark 30-year Treasury bond fell another ¾ of a point by early afternoon on top of the near 2 points it lost on Friday, bringing the yield to 6.906, its highest level since August last year.

By 1.30pm, the Dow Jones Industrial Average was 129.70 points lower at 5,553.18.

Analysts attributed the slide in equities to the growing attractiveness of bonds, given their higher yields, and to concerns that rising wages might take a toll on corporate profits.

Given recent signs of economic growth, much attention will be paid to figures for March producer and consumer price inflation due on Thursday and Friday. Modest economic growth in a low-inflation environment has been one of main factors propelling the US stock market higher through much of last year.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Mr John Lipsky, chief economist at Salomon Brothers, said he expected the inflation figures to start rising more quickly than for most of last year, thus inspiring further market pessimism in the short term. Salomon was forecasting a 0.5 per cent jump in the producer price index and a 0.4 per cent increase in the consumer price index.

There is agreement on Wall Street that the Federal Reserve will not lower interest rates over the next few months, but observers are divided about longer-term prospects for monetary policy.

Mr Lipsky believes that if recent signs of economic strength are a temporary rebound from the sluggish growth seen last year, the Fed could resume cutting interest rates at the end of the year.

On the other side of the debate is Mr Stephen Roach, chief economist at Morgan Stanley, who said: "I could say unequivocally that the easing for this business cycle is finished.

"If the Fed were to lower rates again it would be a dangerous and reckless move," he said.

He expected the Fed to raise interest rates as much as half a percentage point by the end of the year.

Separately, the board of the New York Stock Exchange voted to apply to the Securities and Exchange Commission to change some trading halts triggered by sharp declines on the market.

Mr Robert Parry, president of the San Francisco Federal Reserve Bank, said the US economy was returning to a period of moderate growth following a short period of weakness earlier this year.

He said the weakness was "due primarily to weather-related events" as well as the US government shutdown.

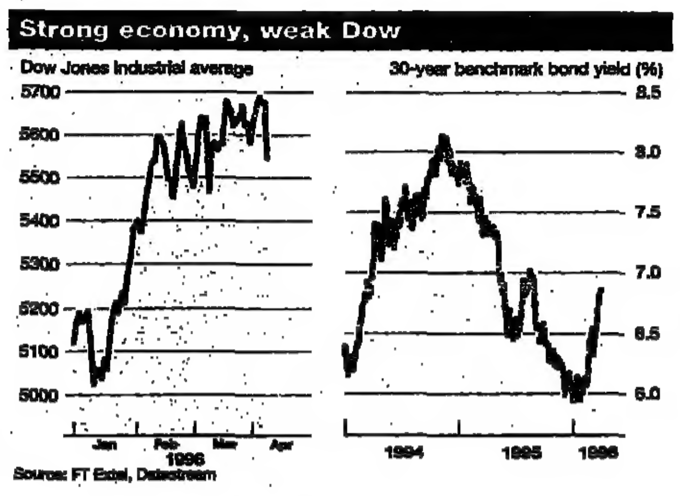
In Japan, concerns about an increase in US interest rates had earlier triggered a 1.3 per cent fall in the Nikkei average.

The rise in US bond yields on Friday alarmed investors in Tokyo, who feared a fall-off in equity purchases by the US pension funds which have driven the Japanese market higher in recent months.

Madrid, the only mainstream European market to trade yesterday, fell 1.04 per cent, tracking bond market losses.

Greek markets were also open, and the Athens general index closed down 0.55 per cent.

**Strong economy, weak Dow**




Source: FT Extel, Datastream

Border patrol: South Korean soldiers guard the demilitarised zone separating the two Koreas yesterday. Over the last few days soldiers from the North have staged military exercises in the area, in violation of a truce. Theatre of war, Page 18; Trial clouds election, Page 4 Picture: Reuter

# New technology 'to bring boost in oil production'

By Robert Corzine in London

Oil production from existing reserves could be dramatically increased within the next decade according to the world's largest oil services group.

Schlumberger, the big Franco-American group, believes new production technology is set to add billions of barrels to total world reserves, while extending the life of many mature production regions, such as the US Gulf of Mexico and the North Sea.

Mr Euan Baird, chairman and chief executive of Schlumberger, said the ability to identify and extract just half of the oil that has been bypassed in existing fields would boost the average world recovery rate from 35 per cent to 50 per cent.

The key to achieving such a gain would be improved understanding of local geology combined with the ability to "monitor and control in real time the fluid movements" within oil reservoirs. Mr Baird said achieving precise monitoring and control of wells was the oil industry's "new holy grail," and a goal Schlumberger hoped to achieve within 10 years.

Industry analysts said the 50 per cent recovery target "was not unreasonable" given the current pace of technological advance, although Schlumberger's 10-year projection for being able to fine-tune reservoirs appeared ambitious to some. Mr John Lichtblau of the Petroleum Industry Research Foundation in New York said such a boost in recovery rates would be needed within 10 years "if the world was to avoid an oil supply crunch".

Mr Baird said no major technological breakthroughs would be required, although there would have to be evolutionary advances in a number of areas. These

Continued on Page 18

## Crédit Lyonnais set to open longer hours

By David Buchan in Paris

The state-owned Crédit Lyonnais bank has agreed with two of its unions a deal on flexible hours that could sweep away rigid French banking regulations dating back nearly 60 years.

The agreement gives employees a reduced working week from 39 to 37 hours at the same pay in return for agreeing a shift system that will allow the bank to stay open longer hours, possibly for six days a week.

This runs counter to a 1937 decree, from the left-wing Popular Front government of the time, which requires regular commercial banks to give staff two consecutive days off – one of which must be Sunday – a week.

The decree, which provides for exemptions, has been flouted by agreements within a few smaller institutions, but never breached by any of France's big three banks – Crédit Lyonnais, Société Générale and BNP.

The agreement reached with two moderate unions, SNB-CGC and the CFTC, reflects increasing disregard for the outdated restrictions, which oddly do not apply to savings and mutual

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## Russian bank crisis threatens to derail economic reforms

By John Thornhill in Moscow

About one in five of Russia's new generation of commercial banks has already gone bust or is in severe financial trouble, threatening to derail the country's economic reform programme, according to the Association of Russian Banks.

Mr Sergei Yegorov, the association's president, said it was illusory to talk of financial stabilisation while the sector was experiencing such a grave crisis.

He said the central bank had classified 480 financial institutions, accounting for 10 per cent of the country's monetary and lending system, as problem banks. Over 300 had already lost their licences.

Mr Sergei Dubinin, the central bank governor who was attending the association's congress, held out little prospect of government relief. He said there would be no further easing of reserve requirements and promised a continuing monetary squeeze designed to cut the monthly inflation rate to 1 per cent by the year's end.

Next month, the central bank will cut banks' reserve requirements on 30-day rouble deposit accounts from 20 per cent to 18 per cent to inject more liquidity into the financial system. But the bank has stressed repeatedly it will not bail out the weaker banks even though it is encouraging them to merge to strengthen their financial positions.

Russia's banking sector, which expanded furiously on the back of cheap credit and high inflation, has been experiencing a slow motion implosion for several months as the government's stabilisation programme begins to take effect. Some cash-starved banks appear to have recently dumped their Treasury bill portfolios to raise money.

A European Union-sponsored report on the Russian banking sector has predicted as many as 1,600 of Russia's 2,285 active banks would disappear over the next few years.

However, several economists have argued that the contraction of the banking sector is both necessary and healthy. Mr Pavel Teplukhin, economist at Troika-Dialog, a Russian stockbroker, doubted whether problems at marginal banks would have a much broader economic impact.

"There is no problem of liquidity in the economy as a whole but only with the allocation of this liquidity within the banking sector," he said. "We do not need so many banks."

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EUROPEAN NEWS DIGEST

# Bildt delays Serb decision

Mr Carl Bildt, who is responsible for implementing the civilian side of the Dayton accord on Bosnia, yesterday gave the go-ahead to an international donors' conference for reconstruction in the war-torn republic but said he would decide tomorrow whether the Bosnian Serbs would be invited.

Bosnian Serbs yesterday said they would free three war prisoners but hold 16 more as suspected war criminals. Mr Bildt last month said Serbs, Moslems and Croats – Bosnia's former warring parties – must release all remaining prisoners if they were to attend the donors' conference in Brussels on April 12 and 13 which hopes to raise $1.2bn in emergency reconstruction aid.

A Bosnian Serb official yesterday said the detainees had now been moved to Pale, the Bosnian Serb stronghold, at the request of Mr Michael Steiner, deputy to Mr Bildt. The Red Cross was allowed to visit them. Tanjug, the Yugoslav state news agency, said the Bosnian Serbs had given evidence against the 16 to the war crimes tribunal in The Hague.

According to the Red Cross, the Bosnian Croats last week still held 44 prisoners, the Moslem-led Bosnian government 28, and the Serbs 16. On Friday the Moslems freed 18 Serbs and the Croats 28 prisoners. The position of the rest was unclear.

■ Yugoslavia and Macedonia yesterday agreed to normalise relations. Foreign ministers from the two countries signed a treaty providing for immediate negotations on economic co-operation and trade as well as the free movement of people and goods between the two states. *Laura Silber, Belgrade*

## Over 100 die in Kurdish clashes

Turkish security officials said yesterday that 27 soldiers and 90 Kurdish rebels had been killed in three days of harsh fighting in the country's south-east. The clashes, in the mountainous northern part of the province of Diyarbakir and in nearby Bingol province, had been among the bloodiest of the 12-year-old campaign by the Kurdistan Workers Party (PKK) for autonomy or independence in the region, they said.

The governor's office in the city of Diyarbakir said the fighting began last Friday when troops spotted a group of between 200-250 PKK fighters. The guerillas declared a unilateral ceasefire last December but Turkey has ignored it. At that time, the rebel leader, Mr Abdullah Ocalan, ordered his forces not to launch raids but said they would fight back if attacked.

Clashes in five different places near the towns of Lice in Diyarbakir province and Genc in Bingol province were reported continuing yesterday evening. *Agencies, Ankara*

## Banesto inquiry completed

A Madrid judge yesterday concluded a 17-month inquiry into the near collapse of Banco Español de Crédito (Banesto) in December 1993 and paved the way for the trial of Mr Mario Conde, Banesto's former chairman, and nine other directors. Judge Manuel García-Castellón's investigation, which runs to 85,000 pages, will now be examined by the public prosecutor who has a month in which to draw up formal charges and request a trial.

Considered the most complex financial investigation ever undertaken in Spain, the probe centred on allegations that Mr Conde and former Banesto executives defrauded the bank by buying Banesto-owned properties which the bank later repurchased at inflated prices. Mr Conde and his fellow directors, who deny business malpractice, were dismissed from Banesto by the Bank of Spain which accused them of "grossly over-valuing" the bank's assets.

Banesto was acquired by Banco Santander in April 1994 after a Pta730bn ($6.3bn) rescue operation, the biggest ever mounted for a domestic bank. Mr Conde, who had been remanded in custody, was released in February last year on surety of Pta2bn. *Tom Burns, Madrid*

## Portuguese concern on Emu

Portugal's top businessmen have called on the government not to participate in European monetary union before Spain and Italy. More than 50 company and bank chiefs warn in a consultative document that currency devaluations by Spain or Italy could badly damage Portugal's competitiveness if it signed up to a single currency before them.

Spain and Italy are Portugal's biggest competitors in overseas markets as well as important trading partners. Although economists cast doubt on Portugal's ability to meet the requirements for a single currency if it is launched in 1999, inflation is lower than in Spain or Italy and interest rates have been falling faster.

Meanwhile, the government has indicated that Portugal aims to remain part of the European Monetary System if it fails to meet convergence criteria. *Peter Wise, Lisbon*

Emergency team sent to Kiev after government overshoots spending target

# IMF calls off $1.6bn loan to Ukraine

By Matthew Kaminski in Kiev

The International Monetary Fund yesterday sent an emergency mission to Kiev after cancelling a $1.6bn loan programme because Ukraine overshot its spending target.

The IMF's surprise decision, coming just a week before what was expected to be board approval, deals a further blow to Ukrainian economic reform.

The Kiev government, nervous about a spillover of anti-reform sentiment in the Russian presidential election in June, had planned to use the funds to defend the currency and pay for its energy imports.

The emergency IMF mission this week will begin negotiations on an entirely new standby programme involving $900m, which western officials are hoping can be disbursed by next month.

The IMF acted when Ukraine overshot its first quarter spending target by 11,000bn karbovanets ($57m), or roughly 1 per cent of the quarter's gross domestic product, all in fresh currency printed at the central bank.

A senior IMF official in Washington called the cancellation "most unfortunate", but thought the economic impact would be "limited" as long as the talks moved quickly. The IMF is believed to be looking for fresh commitments on budget and inflation policy.

But a western official in Kiev said the latest setback might further undermine confidence in economic reform, launched by President Leonid Kuchma in late 1994.

In January the IMF suspended the programme with $700m undisbursed after a larger than anticipated 1995 budget deficit and high import arrears. The IMF expected to revive the loan, with an added $200m, when parliament passed the 1996 budget in late March.

Over the past year, Ukraine's government managed to lower inflation to about 140 per cent last year and reduce the budget deficit. However, western donors fault Kiev for failing to keep a tight rein on money expansion and to push ahead with privatisation. Ukraine's economy remains among the weakest in eastern Europe. Gross domestic product fell 12 per cent last year.

The president last week reaffirmed the government's commitment to reform and stabilisation in a speech before a largely hostile parliament.

Mr Anders Aslund, a Swedish economist and adviser to the Ukrainian government, said yesterday the excess spending was "an accident" caused by poor financial management. "They'll now have to restrict fiscal and monetary policy further," he added. "They have no choice."

However, Mr Kuchma remains susceptible to pressure from a vocal industrial lobby that wants state financial support and opposes attempts to restructure enterprises through privatisation.

A presidential decree, released at the weekend, cast doubt on his willingness to stand up to the factory directors. It extended a grace period for paying enterprise debt to an unspecified "several years".

# Yeltsin woos votes with savings pledge

By John Thornhill

Pensioners and cheated investors have become the latest targets of President Boris Yeltsin's promises of pre-electoral largesse as the embattled Russian leader seeks to woo core supporters of the Communist party.

In a desperate effort to win the votes of the elderly, Mr Yeltsin yesterday signed two decrees to ensure the prompt payment of pension arrears and compensate depositors whose savings were ravaged by the hyperinflation of the early reform era.

"We are not buying votes for the forthcoming presidential elections. The 1996 budget is tight," said Mr Alexander Livshits, the president's chief economics aide. "But we are now able to pay the debts and it would be shameful not to do it." The government would grant a six-month loan of Rbs4,000bn (£540m) to the state pension fund to ensure all pension arrears were eliminated by the end of the month. The money would be raised from issuing short-term government bonds and taxes, Mr Livshits said.

A separate decree also instructed the government, the central bank, and Sberbank, the state savings bank, to create a federal mechanism for restoring private savings destroyed by hyperinflation. Sberbank's 70m depositors, many of them elderly, are estimated to have lost more than Rbs800,000bn (in today's money).

Mr Livshits said trying to pay this sum in full would be like trying to "swim across the Pacific Ocean". But a compensation mechanism would be created within three months to start the process.

Mr Yeltsin's energetic campaigning and extravagant promises have enabled the unpopular Russian leader to close the gap on his chief challenger, Mr Gennady Zyuganov, the Communist party leader. But opinion polls suggest the biggest grievance for Russian voters remains the conflict in Chechnya which has already cost 30,000 lives.

A recent peace plan proposed by Mr Yeltsin has been coolly received in Chechnya. But Mr Nursultan Nazarbayev, president of Kazakhstan, and Mr Mintimer Shaimiev, president of the central Russian republic of Tatarstan, have agreed to act as intermediaries and may give the peace process fresh impetus.

The two leaders head mainly Moslem regions and are likely to gain a wider hearing among Chechnya's Moslem leadership.

Mr Vyacheslav Mikhailov, Russia's nationalities minister, said indirect talks with Mr Dzhokhar Dudayev, the rebel Chechen leader, might begin this month. "Some members of the Dudayev circle, including the head of the rebel staff, Aslan Maskhadov, support this idea," he said.

But Mr Dudayev yesterday called upon Mr Yeltsin to sack those members of his entourage who no longer obeyed his orders to stop fighting and discredited the peace initiative.

Russian newsagencies reported fighting continued yesterday around the Chechen village of Goiskoe, where more than 30 Russian troops have been killed in recent days.

# Italian poll fuels hopes for independent north

ITALIAN ELECTIONS
April 21

Several years hence a quiz show host might be asking the following general knowledge question: "What is the capital of Padania?" The jackpot answer would be the ancient ducal city of Mantua, on the banks of the river Mincio close to its confluence with the Po, northern Italy's great waterway.

Padania, of course, does not yet exist. But in the mind of Mr Umberto Bossi, leader of the populist Northern League, it is the future secessionist chunk of northern Italy. In essence, the new state would cover the course of the Po and extend to the east, by invitation, into the Veneto.

Mantua would take advantage of its strategic position to spawn the new mini-republic enjoying the highest per capita income in Europe. Already, the League has chosen Mantua as the site for its self-styled "Parliament of the North", which has convened 10 times and boasts 384 delegates.

Mr Bossi has been blowing hot and cold on the idea of secession from the "robber government in Rome" for almost four years. But, as the campaign for general elections on April 21 gathers pace, he is playing the secessionist card.

He has refused an electoral pact with either the centre-left or rightwing alliances. In the north this has created an uncertain three-cornered contest under Italy's electoral laws which apportion 75 per cent of seats to a first-past-the-post system and the remainder to proportional representation.

"The outcome of the vote here in electoral colleges [areas with more than one constituency] like Mantua will be decisive in determining the national result," says Mr Armando Federici-Canova, regional organiser for the centre-left Olive Tree alliance. "The League vote will fall and who gets this will probably win nationwide."

In the 1994 general elections the League forged a highly advantageous alliance with the then new Forza Italia movement of Mr Silvio Berlusconi. Between them in this part of Lombardy they picked up 45 per cent of the vote (split 26.7 per cent Forza Italia and 18.4 per cent League).

This time, Forza Italia is teamed with the rightwing National Alliance (AN) of Mr Gianfranco Fini and four minor groupings. "We believe part of the League vote has already shifted to AN," says Mr Andrea Merlotti, elected as a Forza Italia deputy for Mantua in 1994 and who is standing again.

He also concedes that some of the Forza Italia electorate might move to AN which polled just under 6 per cent of the vote here last time. Even with a substantial strengthening of AN, it would be surprising if the rightwing alliance touched 40 per cent.

As it is the CCD and CDU, two small groups in the alliance, formed from the old Christian Democrat right, are still smarting over being denied their own candidate in this college. They are also not happy at the way Mr Berlusconi's Forza Italia is being pushed to the right – a move which could drive some of their voters into the centre-left camp.

The Mantua electoral college stretches north to the lakes and south to the "red belt" of Emilia Romagna. It comprises both a traditionally conservative Catholic vote in the small towns and rural economy, as well as traders, artisans and an important industrial electorate in the numerous medium-sized engineering groups.

This is familiar territory to Mr Romano Prodi, leader of the Oliver Tree alliance who entered politics last year. As an economics professor from nearby Bologna, he has specialised in the problems of small and medium-sized businesses. In the last elections the centre-left, including Reconstructed Communism formed from hardline members of the old Communist party, mustered just over 40 per cent. If Mr Prodi cannot improve on this here, the Olive Tree will be in trouble.

"We have not made an alliance with the League because our members consider Bossi unreliable and are anti-secession," observes Mr Federici-Canova. Instead, they have concluded "desisting pacts" with Reconstructed Communism. These pacts are one of the more curious inventions of Italian political machination. In effect, the centre-left agrees to allow Reconstructed Communism (RC) to field a candidate unopposed in one seat in return for their support in another.

The reliance on RC is a double-edged weapon. "How can the Olive Tree offer a credible government when they have to rely on the Communists' votes?" questions Mr Merlotti of Forza Italia.

A bigger imponderable is that of the party just formed by the caretaker premier, Mr Lamberto Dini. His Dini Italian Renewal has been given one of the three chamber of deputy seats to contest, backed by the Olive Tree Alliance. At a local level this was extremely unpopular because a candidate well known in the community was elbowed aside to make way for Mr Diego Masi, an ambitious politician who failed to win the election to run the Lombardy region last year.

Such insensitivity to local opinion has turned Mr Masi's seat into a genuine three-way contest. League officials say they do not mind if they lose, convinced they have a hard core of voters who will back Mr Bossi even if he openly favours secession. Indeed, if the League loses out heavily, secessionist noises may well become louder.

**Robert Graham**

Padania: Bossi's dream


# German unions in hint over sick pay

By Wolfgang Münchau in Frankfurt

Leading German trade unionists have expressed readiness to compromise over cuts in sick pay, breaking a long-standing taboo on an emotive issue over which they have been at loggerheads with employers for years. Mr Fritz Schösser, head of the Bavarian section of the DGB union federation, told the newspaper Bild am Sonntag it was no longer sensible to include overtime pay in determining the level of sick pay.

His statement is seen as a concession in debate on a key issue facing the German welfare state. Employees are entitled to full sick pay from the first day of illness, the amount being based on the basic wage plus extras, such as overtime and other one-off payments. Employers complain workers are more prone to fall ill after months during which they earned above-average wages.

The Bavarian DGB leader said unions favoured cuts in overtime, and it would therefore be "sensible and logical if overtime bonuses no longer go into calculations of sick pay". Inclusion of overtime pay in calculating sick pay currently cost Bavarian companies about DM1.3bn ($870m) annually. Other benefits, such as holiday pay, should stay part of the pay formula, he added.

Mr Dieter Schulte, president of the DGB, also indicated that the union movement was ready to discuss "painful measures", including sick pay, as long as cuts were fairly distributed.

Readiness to tackle abuse of sick pay also appeared to be growing among members in the governing coalition. Mr Norbert Blüm, labour minister, said employees who worked should always be better off than those who stayed at home. The employers' lobby is pushing hard for entitlement thresholds, which would restrict sick pay to employees who stay ill for more than several days. They believe thresholds would reduce one-day truancy, which is more frequent on Mondays than other days.

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# Verdict boosts case against Andreotti

By Robert Graham in Rome

The use of *pentiti* – Mafia members co-operating with Italian justice under witness protection programmes – has been vindicated in a test case trial in Palermo.

The outcome is likely to have important consequences for the trial of former prime minister Mr Giulio Andreotti, who is accused of having links with the Mafia. The accusations against him stem in part from testimony provided by 10 of the *pentiti* whose evidence was accepted in the Palermo trial.

This concerned Mr Bruno Contrada, a career policeman who rose to become the head of state intelligence monitoring Cosa Nostra, the umbrella organisation of the Sicilian Mafia. Last Friday, Mr Contrada was sentenced to 10 years' imprisonment for having provided favours and protection to Mafia bosses for more than a decade.

It was the first time a senior servant of state had been found guilty of such a crime. During 169 court hearings, the prosecution called 66 witnesses and the defence 171, including five former police chiefs, senior intelligence figures and a former interior minister.

However, the judge accepted the prosecution case that Mr Contrada had become a double agent working not for the state but the ruling clans of Cosa Nostra. Mr Contrada had passed on sensitive police information, enabling Mafia leaders to stay at large. Mr Toto Riina, the acknowledged boss of bosses, was arrested within two months of Mr Contrada's own arrest.

The trial judge is the same as that hearing the case against Mr Andreotti, which began last September. The Andreotti proceedings have been held up both because the Contrada case has taken up most of the court's time and because an assistant judge has had health problems.

The accusations against the 76-year-old Mr Contrada came from all the main *pentiti*, including the historic figure of Mr Tommaso Buscetta. If the court had found to the contrary, it would have proved a serious blow to the *pentiti* system, which over the past five years has become one of the state's main weapons in its fight against the Mafia.

Mr Contrada insisted on his innocence and claimed he was victim of a political vendetta. He has received support from politicians in the rightwing alliance of former premier Mr Silvio Berlusconi who say the evidence was too flimsy.

The political divisions over the decision, with the centre-left backing the Palermo public prosecutor, could cause problems after the April 21 elections. Palermo magistrates now appear determined to investigate whether several prominent character witnesses for Mr Contrada perjured themselves.

Simitis to stress role in Balkan stability in talks with Clinton

# Greece tries to get US on side

By Kerin Hope in Athens

The Greek prime minister, Mr Costas Simitis, is expected to stress his country's commitment to promoting stability in the Balkans when he meets President Bill Clinton at the White House today.

Mr Simitis, anxious to make a positive impression on his first trip to the US as premier, will emphasise both his government's efforts to improve ties with its northern neighbours and the constructive role of Greece's $500m investment in the region.

Greece has adopted a more balanced Balkan policy since Mr Simitis took over as prime minister in January. It has distanced itself from its traditional ally Serbia by sending peacekeepers to Bosnia and, for the first time, shown a willingness to compromise in a five-year dispute over the former Yugoslav republic of Macedonia's choice of name.

Officials said Mr Simitis was keen to encourage US investors to make use of Greek expertise in the Balkans by channelling funds to the region through Athens-based subsidiaries. However, he must first give assurances that Greece will smooth difficulties encountered by US companies over copyright, taxation and accounting practices.

Mr Simitis must also allay US concerns about anti-American terrorism in Greece and security at Athens airport.

While he is certain to seek US support for Greece's position in its disputes with Turkey, his decision to leave the combative defence minister, Mr Gerasimos Arsenis, behind in Athens signalled that the Aegean quarrel which brought Greece and Turkey to the brink of war January is not the overriding priority of his trip.

The premier has ignored recent calls by Mr Arsenis for a tougher policy towards Turkey, including making alliances with other countries that are at odds with Ankara, in favour of a softer strategy that would bring Greece closer to its western allies.

Greece now appears closer to accepting a US proposal for holding direct talks with Turkey on a broad range of disputes, provided that the Turks agree that questions of sovereignty over Aegean islands should be settled by the international court at The Hague.

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# Chirac urges EU to boost Mideast role

By James Whittington in Cairo

Chirac: seeks 'total peace'

President Jacques Chirac of France yesterday completed a two-stop tour of the Middle East by promising to give "a new vitality" to French support for the Middle East peace process, particularly "the aspirations of the Arab world".

In an address given at Cairo University, which was billed by his delegation as an important indication of France's new vision for the region, he said Europe should live up to its responsibilities by playing a more influential role in the Middle East.

Europe must "no longer be just a dispenser of funds", but should "bring, more than ever, its political contribution to a peaceful solution in which it should be a co-sponsor," he said.

The president called for a summit of Mediterranean heads of state to follow up on a foreign ministers' meeting in Barcelona last November. The summit would work out a regional zone of stability and economic development.

He also refloated the idea of an international institution which would oversee the distribution of water resources following a proposed regional pact on the issue.

Mr Chirac's speech was welcomed by Egyptian officials and commentators who hope a more proactive French and European stance on Arab issues in the Middle East will help counterbalance the perceived bias by Washington towards Israel.

Arab states have been particularly annoyed by US support for Israel's tough line against the Palestinians in the West Bank and Gaza Strip after a wave of suicide bombings in late February.

Playing to his audience, Mr Chirac warned Israel against reneging on its agreements with the Palestinians. "Commitments already signed must be respected, and the agreed timetable adhered to in peace talks with the Palestinians," he said. "There will be no durable peace unless the rights and legitimate aspirations of the Palestinians are respected," he added.

He also called for Israel to restart stalled talks with Syria so that a peace accord can soon be reached on the basis of a "total retreat from the Golan in return for a total peace".

The tour was Mr Chirac's first to the Middle East since he took office in May. Last week he made the first official visit to Lebanon by a French president since it won independence from France in 1943.

There he urged a withdrawal of Syria's 40,000 troops in the country after an eventual end to Israeli occupation in the south. He also said French troops would be available to help secure any peace agreement.

# Industrial conflict in west at 50-year low

By Robert Taylor, Employment Editor

Industrial conflict in the western industrialised world has fallen to its lowest level for more than 50 years, according to the latest international statistics on strike activity issued by the Paris-based Organisation for Economic Co-operation and Development and published by the UK's department of education and employment.

Only an annual average 122 working days were lost to labour disputes per thousand employees between 1985 and 1994. The strike rate in the five years after 1990 was an annual average of 100 working days, compared with 145 working days for the five years before.

The sharpest fall in industrial conflict since 1990 was in Denmark (an 85 per cent decline compared with the 1985-90 period), followed by New Zealand and the UK (79 per cent).

Greece was the most strike-prone country in the OECD, with an annual average of 3,729 working days lost per thousand employees between 1985 and 1994.

It was followed by Spain, which averaged an annual 565 working days lost per thousand, and Canada (326 days).

The most industrially peaceful country since 1985 has been Switzerland, which recorded an annual average of only one working day lost per thousand employees. Japan came second, claiming to have an annual average of a mere four working days lost per thousand employees, followed by Austria with five and Germany and the Netherlands with 12.

The UK, with an annual average of 108 working days lost per thousand employees, came in 11th out of the 22 countries on the OECD strike league table, slightly below the OECD average of 122 working days lost. However, in 1994 the UK recorded its lowest number of working days lost to industrial conflict since official records began in 1891.

The study points out that the international statistics on strikes exclude the secondary effects on other workers affected by shortages of materials supplied by establishments in dispute. It also omits go-slows, work to rule and overtime bans. Strikes involving a small number of workers are also excluded by some countries.

*Labour market trends, April 1996. HMSO £5.45*

# Benefit of tariff reduction 'not fully recognised'

By Guy de Jonquières, Business Editor

Countries which reduce their import tariffs gain bigger and longer-lasting economic benefits than has been generally recognised, an Australian government study has found.

It suggests that differences in industrialised countries' economic performance since 1970 have been determined more by the speed at which they have cut tariffs than by the vigour with which they have tackled domestic reforms.

The study, by the Economic Planning Advisory Commission, finds that every 1 percentage point fall in industrialised countries' tariffs has, on average, raised their total productivity by more than 3 per cent and gross domestic product by 2 per cent.

The commission, which is attached to the prime minister's office, says these increases are about 10 times greater than most economists had previously believed.

It says the gains were even bigger in countries, such as Finland, which started with exceptionally high tariffs. More than half the margin by which Finland's growth rate exceeded the average for industrialised economies in the 1970s and 1980s is attributed to the impact of tariff cuts.

The study concludes that Australia's relatively poor economic performance during the same period was due mainly to it being slower than other rich countries to lower tariffs.

But the study estimates that tariff cuts planned for the rest of this decade will raise Australia's productivity by 25 per cent, boost its gross domestic product by as much as 17 per cent and sharply reduce its current account deficit over the longer term.

It finds that, in most countries, tariff cuts have only started to affect economic performance about four years after they were introduced. However, they continued to yield benefits for about 20 years.

The authors say that although the benefits of reducing tariffs can be increased if countries also pursue domestic reforms, these explain little of the difference between the productivity performance of industrialised economies since 1970.

They find that France obtained some of the largest economic gains from cutting tariffs during this period, while continuing to pursue a *dirigiste* industrial policy and maintaining large public monopolies in important industries.

Many previous analyses have argued that dismantling tariffs encourages higher productivity by stimulating increased investment.

However, the study says there is little evidence that this has happened in industrialised economies. Instead, trade liberalisation has enabled countries to increase output from existing capital investments.

*Tariff Reform and Economic Growth; Economic Planning Advisory Commission, PO Box E4, Queen Victoria Terrace, Parkes, ACT 2600. Tel: (616) 270 2444. Fax: 270 2442*

# Central Asians reach common ground over water

## An agreement signed at the weekend will improve cross-border deliveries of water and energy, writes **Sander Thoenes**

Three central Asian republics announced an agreement at the weekend acknowledging that in a region where rain is a rarity water can be as valuable as coal or gas.

Mr Zhenishbek Bekbolotov, Kyrgyzstan's minister for water resources, said yesterday that his country had agreed with neighbouring Uzbekistan and Kazakhstan to improve cross-border deliveries of water and energy.

Short on details, the accord calls on Kyrgyzstan to guarantee supplies of hydroelectricity and sufficient flow of water through the Syr Darya river to the cotton fields of Uzbekistan and Kazakhstan, in return for unspecified amounts of Uzbek gas and Kazakh coal.

"Water is a commodity," Mr Bekbolotov said. "Any natural resource that is used should be paid for."

The break-up of the Soviet Union has forced local leaders in central Asia to reconsider how to share natural resources.

Kyrgyzstan is dependent on its neighbours for gas and coal, but owns a large hydroelectric power station which controls the flow of the Syr Darya, a significant source of irrigation.

"When the Soviet Union existed all this was run by Moscow," said Mr Koposyn Kudaibergenov, deputy chairman of the Kazakh Water Committee.

"There was a command system and we all followed orders. Now each state is sovereign and each has its own problems to deal with."

Since 1992 Kyrgyzstan has opted to let water flow through its hydroelectric dams in winter, when it needs to heat its homes. The country stores water in spring and summer, when Uzbekistan and Kazakhstan are desperate for water to irrigate their cotton fields.


Uzbekistan, in turn, has frequently reduced or cut off supplies of gas to its neighbours because of huge payment arrears. At one point, Kyrgyzstan siphoned off Uzbek gas en route to Kazakhstan in an attempt to guarantee supplies.

Kazakhstan has been worst hit, because what little water it receives from Uzbekistan is polluted by drainage from the cotton fields, which are heavily sprayed. Its capital, Alma Ata, is poorly lit and hit by frequent power shortages.

Excessive use of the Syr Darya and the Amu Darya rivers for irrigation has drastically cut supplies to the Aral Sea, which has also been heavily polluted with pesticides. However, the new accord makes no mention of increasing the water flow to the Aral.

Mr Abdurahim Zhalalov, Uzbekistan's acting minister for water resources, denied water had become a commodity in central Asia. "Nobody is trading water," he said. "The commodity is hydroelectricity."

But Uzbekistan and Kazakhstan would be unlikely to buy hydroelectricity in summer if not to ensure water supplies.

The new agreement fails to create a pricing mechanism for the various commodities, the main source of conflict in a region where such trading is a novel business. Kazakhstan received only 70 per cent of pledged supplies of water from the Syr Darya last year, and much of it in winter. "Water should not be for sale," said Mr Kudaibergenov, "because whoever sits upstream will demand as much as he wants, as a monopolist."

A study into ways to save the Aral Sea, funded by the World Bank and due to be released soon, calls for co-ordination of water and agriculture policy between the three republics but keeps the issue separate from the energy disputes.

The three republics have invited neighbouring governments to join in and solve a host of other water and energy disputes.

Uzbekistan and Turkmenistan struggle to share the Amu Darya river; Kazakhstan has asked China to stop over-using the Irtysh, which flows through Kazakhstan to Russia; and Moscow recently cut off electricity supplies to northern Kazakhstan to press for payment of \$400m (£263.1m) in energy bills.

NEWS: ASIA-PACIFIC

India poll study sees worst result for party since independence

# Record low in Congress vote forecast

By Mark Nicholson in New Delhi

India's governing Congress party is heading for its lowest share of the popular vote since independence in general elections which start towards the end of this month, according to a nationwide academic study of political attitudes.

The National Election Study, a joint effort by Indian social science institutions collecting data from 9,700 respondents, shows Congress can expect the support of 32.6 per cent of the electorate in the April-May poll, against 36.9 per cent in the 1991 elections.

The survey, the first such enterprise in 25 years, makes no attempt to translate the likely vote into probable parliamentary seats. However, its co-ordinators said a hung parliament appeared certain.

They added that results also suggested the national swing against Congress could increase.

"I expect it to be more, up to 7 percentage points," said Mr Yogendra Yadav, the survey's national co-ordinator, a swing which would take Congress to below 30 per cent of the vote. The survey, conducted after election dates were announced but before candidates were decided, found 45 per cent of respondents undecided.

Congress's previous low of 34.5 per cent came in 1977, when voters rebuffed Mrs Indira Gandhi in the first poll after her autocratic declaration of a national state of emergency in 1976.

Until then the party which has ruled India for all but four years since independence could rely on 40-48 per cent.

The survey found the Hindu nationalist Bharatiya Janata party to be the chief beneficiary of lost Congress support, with its share seen rising to 25 per cent from 20.9 per cent in 1991.

The BJP this week launched its campaign with a strong appeal to "cultural nationalism" based on four central slogans of security, self-reliance, social harmony and probity in public life.

In an 80-page manifesto, the party welcomed foreign investment to gain "world class technology" but – rejecting "unbridled consumerism" – it also said it would not welcome foreign investment into "non-durable consumer items".

Foreign investment would be favoured in sectors which promoted exports and where foreigners took Indian partners.

The party promised to deepen domestic deregulation begun four years ago under the Congress government by pruning government and removing the residue of industrial licensing.

On tariffs, it would "ensure that the domestic sector gets a level playing field and does not become uncompetitive". It would also proceed further with divestment of public sector assets while not endangering jobs, and said it would orient tax and fiscal reforms towards augmenting domestic savings.

The manifesto offers some stings in its foreign policy, confirming that the party would "correct" what it said was a weakening of India's armed forces under the Congress party and "exercise the option to induct nuclear weapons".

A BJP government would not agree to the comprehensive test ban treaty, the fissile material control regime or the missile technology control regime.

It would accelerate programmes to develop both medium and longer-range Indian missiles.

# Sedition trial clouds Korean election

## Seoul court case may affect outcome of Thursday's poll, writes **John Burton**

For the past month former presidents Roh Tae-woo and Chun Doo-hwan, once the most powerful men in South Korea, have made weekly appearances in the dock of the Seoul district court dressed in powder-blue prison uniform.

Their trial for sedition has transfixed the nation, while being hailed in the rest of Asia as a rare regional example of political leaders being brought to justice for abuses of power.

But that noble image has been obscured in Seoul as the trial becomes a bitter political issue that could affect the outcome of the general election on Thursday.

With his government in danger of losing its parliamentary majority, President Kim Young-sam is telling voters that the trial of his two military-backed predecessors reflects his strong commitment to democratic reforms and "righting the wrongs of history".

The opposition parties have a more cynical view of the president's motives, alleging that Mr Kim has put his two former political allies on trial in a blatant attempt to win votes, while protecting himself against damaging charges concerning illegal political contributions.

Mr Chun and Mr Roh are involved in two sets of trials. They are being tried separately on corruption charges for allegedly accepting a combined total of more than $1bn in corporate bribes during their successive terms of office from 1980 to 1993. They are also being tried jointly on treason charges for leading a 1979 army coup and suppressing a 1980 pro-democracy protest in which at least 200 demonstrators were killed.

The two main opposition parties, the centre-left National Congress for New Politics and the conservative United Liberal Democrats, suspect that the government scheduled the treason trial right before the election to gain the maximum advantage as voters prepare to go to the polls.

In addition, the trial represents a potential threat to both opposition parties. The NCNP's largest urban stronghold is the south-west city of Kwangju, where the 1980 massacre of protesters occurred. It believes the government is using the trial to attract votes in the Kwangju region.

The ULD worries that the trial could prove embarrassing since many of its politicians are former supporters of the two ex-presidents.

Meanwhile, the opposition parties have criticised the leisurely schedule of the corruption trials, which began in December and are not expected to end until May at the earliest.

They believe the slow pace of the corruption trials is intentional to prevent any pre-election disclosures of alleged illegal links between Mr Kim's election campaign finances and the huge political slush fund amassed by the two former presidents.

In 1990 Mr Kim, a former dissident, joined the ruling party established by Mr Chun and Mr Roh and became its successful presidential candidate in 1992. Mr Kim has repeatedly denied personally receiving any money from his predecessors, although he has not disclosed sources for the 1992 campaign.

The election debate over the trials underscores that the arrest and imprisonment of Mr Chun and Mr Roh last autumn have had strong political overtones from the beginning.

'President Kim is seen by some as turning on the political benefactors who helped him get elected in order to save himself'

After taking office in February 1993, Mr Kim publicly opposed demands for an official review of possible abuses by his two immediate predecessors. He explained that investigating the 1979 coup and 1980 Kwangju massacre would harm national reconciliation.

There were also good political reasons for caution. Mr Kim controlled a minority faction in the ruling party and any attempt to probe the ex-presidents could cause the majority faction of their supporters to leave the party, which would result in the government losing its parliamentary majority.

However, the disclosure last October that Mr Roh had collected $650m in political donations during his 1988-93 term forced Mr Kim's hand because it raised awkward questions about whether he had received some of this money for the 1992 campaign.

The president skilfully used the slush fund scandal to his advantage. Mr Kim enjoyed the widespread support of an angry public to arrest Mr Roh and later Mr Chun. This enabled Mr Kim to conduct a purge in the ruling party of the ex-presidents' supporters, which consolidated his political control.

Their subsequent highly publicised trial has distracted attention from the allegations concerning the financing of Mr Kim's 1992 campaign.

In spite of opposition worries that the trial may harm their election chances, Mr Kim's strategy could still backfire.

The trial has deepened the regional antagonism that bedevils Korean politics. The south-eastern Taegu region, the political stronghold of the two former presidents, regards the trial as unfair retribution. The formerly pro-government area is likely to elect ULD and independent MPs next month.

Mr Kim's actions have also strengthened a perception of him as a political opportunist, which has contributed to a slump in his popularity.

"The concept of loyalty is important in Korean society. You do not betray those who have helped you," explained the editor of a leading Korean newspaper. "But President Kim is seen by some as turning on the political benefactors who helped him get elected in order to save himself."

It has also set a dangerous precedent for Mr Kim if any illegalities are ever found in his political past.

# Manila to prosecute mining executives

By Edward Luce in Manila

The Philippine government yesterday said it would file criminal charges against at least five executives of a mining company which leaked toxic waste into a river last month, cutting off hundreds of families and causing widespread environmental damage.

The company, Marcopper, which is 40 per cent owned by Placer Dome of Canada, would also be "blacklisted" from the country's recently liberalised mining sector because it had flouted mining, water and environmental regulations, said Mr Victor Ramos, secretary of state for natural resources.

The copper mill, which had the capacity to process 30,000 tonnes of copper ore a day, released tonnes of liquid "tailings" into the Boac River in central Philippines, harming wildlife and causing fears of permanent damage to residents' health.

Mr Ramos (no relation of President Fidel Ramos) did not specify whether Placer Dome would be separately debarred from operations in the Philippines, but said an expatriate manager at the copper mill where the spillage occurred would be prosecuted. Those convicted could face up to six years' imprisonment for each violation.

"I have ordered my mines director not to process any [Marcopper] application for exploration or development anywhere in the country," said Mr Ramos. The company, which has been operating in the Philippines for 27 years, would also be liable to unspecified fines for damage to the environment.

The Philippine government, which last year opened up the country's gold- and copper-rich mining sector to 100 per cent foreign ownership, has received 69 foreign applications for exploration and development rights in the country, three of which were submitted by Marcopper. It is not clear whether the political outcry resulting from last month's accident will undermine the remaining 66 applications.

The liberalisation drive, which has been accompanied by measures to lower mineral export taxes and allow duty-free imports of capital equipment, is aimed at quadrupling earnings from mining to about 20 per cent of total Philippine exports.

Gold, copper and nickel exports dropped from 20 to 6 per cent of Philippine export earnings in the 1980s because of the collapse of world metal prices and environmental and labour disputes in the mining industry.

# Crime adds to business risks in Vietnam

By Jeremy Grant in Hanoi

Doing business in Vietnam's commercial capital, Ho Chi Minh City, is getting a little riskier, but not because of more usual reasons such as unwelcome taxes or new layers of red tape.

Foreign businessmen and Vietnamese police are worried about an alarming increase over the last six months in crime, aimed at foreign and Vietnamese businesses as well as tourists .

Last year, New World Group of Hong Kong erected watchtowers, a fence and floodlights at the site of a 500-room hotel it was building in the city centre, after theft of construction materials and hotel furniture got out of hand.

In recent months the former director of a police security unit has set up his own own company, Long Hai Bodyguard, to combat a surge in cases of factory break-ins and theft.

One Ho Chi Minh City-based shoe manufacturer was reported in an official newspaper last week as having signed up for 10 of the company's bodyguards, who are trained in martial arts and the use of firearms, "stun guns and blinding lights".

Retired Maj Gen Phan Van Xoan, who set up Long Hai Bodyguard, said: "We have recognised a need of society in a timely way and are prepared to meet it."

Pickpocketing and bag snatching are becoming common in the city, as well as daring swoops by motorcyclists on foreigners wearing jewellery, often carried out in broad daylight in the city's main streets and near large hotels. Highly skilled pickpockets loiter on street corners, masquerading as chewing gum sellers.

"Our company has experienced two attacks where necklaces have been ripped off people's necks. It's happening to Vietnamese just as much as foreigners," said one executive with a US company with offices in Ho Chi Minh City and the capital, Hanoi.

Ho Chi Minh City, known as Saigon before the Vietnam war ended in 1975, has seen a big rise in foreign visitors and residents since the early 1990s, after the country officially embraced market-oriented economic reforms 10 years ago. About 15,000 foreigners live in the city, whose population is 6m.

Foreign residents say crime levels are still well below those in other Asian and western cities. However, the authorities, as keen to promote the city as a tourist destination as much as a safe place to do business, are struggling to limit a rising crime rate.

A year ago, taking a tour of Ho Chi Minh City in a pedal-driven cyclo-rickshaw would have been uneventful save for the occasional near-miss with wayward motorcyclists. But some resident foreigners say they avoid taking cyclo-rickshaws, particularly at night, for fear of mugging.

At the US embassy in Hanoi, a notice posted in the consular section mentions reports of cyclo drivers kidnapping passengers and extorting money. "We've been telling people to be more cautious," said one consular official.

Last week, the Youth Vanguard newspaper reported that police had arrested leaders of gangs using mobile phones to co-ordinate armed confrontations near Saigon Port.

# Chinese Airbus order would threaten Boeing dominance

By Tony Walker in Beijing

Premier Li Peng of China tomorrow begins a three-day visit to France during which Airbus Industrie hopes he will announce a $1.2bn order for at least 30 new aircraft and signal an end to Boeing's dominance of the Chinese market.

Mr Li, who is to visit Airbus headquarters at Toulouse later this week, discussed the aircraft purchases in Bangkok last month at the Asia-European summit with President Jacques Chirac of France and with Chancellor Helmut Kohl of Germany.

The Chinese official may also indicate Beijing's preference for European involvement, including that of Airbus Industrie, in China's plans for a domestically produced 100-seater passenger aircraft.

A large Chinese Airbus purchase will worry Boeing at a time of fraught Sino-US relations over trade issues, human rights, Taiwan and arms proliferation.

Boeing has had a $2bn order for China of some 20-30 aircraft pending since last year, but an announcement has been stalled for months, raising suspicions that difficulties between Beijing and Washington are a factor.

A Chinese decision to spend more than $1bn on new Airbus aircraft would also coincide with last-minute lobbying over renewal of China's Most Favoured Nation trading status in the US. Companies such as Boeing are at the forefront of efforts to persuade the administration and Congress to renew MFN.

China's passenger fleet is dominated by Boeing with about half the 400 aircraft in service, but Airbus has been making inroads and in the past five years has secured about 30 per cent of new orders.

The European aircraft consortium made a breakthrough in February when it signed an agreement with Air China to supply three A340-300s. These will be Air China's first Airbus purchases and signal the end of Boeing's monopoly. China's flag carrier had been operating an all-Boeing fleet.

Fuelling US concerns about Chinese intentions was the postponement last month of a trip to the US by Ms Wu Yi, China's trade minister, who was to have visited Boeing and McDonnell Douglas. Boeing has been negotiating to sell China 10 777s, five 747-400s, and 15 737s.

A Chinese moratorium on new aircraft purchases, which was imposed two years ago because of concerns about safety and the rapid growth of the domestic airline business, is expected to be eased soon. An announcement by Mr Li of Airbus purchases would indicate China is back in the market.

Airbus Industrie forecasts that China will acquire 1,320 aircraft between now and 2014. This would represent 35 per cent of all purchases for the Asia-Pacific.

Airbus has a total of 26 aircraft in service in China, including A300-600Rs, A-310s and A-320s.

# Japan's central bank listens to whispering from the grass roots

## **William Dawkins** on managers with subtle and ambiguous influence

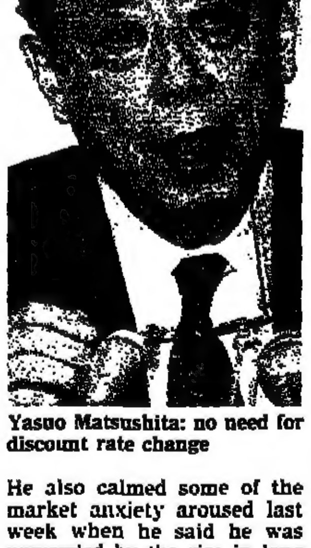
The Bank of Japan, the *world's largest holder of foreign reserves*, yesterday broke out the green tea and biscuits for what must be one of the least known – but far from least interesting – events in the international economic calendar.

The bank's main conference room, in a grandiose 19th century stone building in central Tokyo, a rare survivor of earthquakes and wartime bombs, is host to the quarterly meeting of its 33 branch managers, a forum at which they report to the BoJ governor on the grass roots health of the world's second largest economy.

The managers' conference is one of the many Japanese institutions that, officially, have no power and yet influence decisions that affect the rest of the world economy. At stake at the meeting, which continues today, is the timing of the prospective tightening of Japanese monetary conditions, the prospect of which sent tremors through world financial markets just before Easter.

Also on the managers' agenda is the growing swell of opinion, fostered by Mr Yasuo Matsushita, its governor, that the bank should have more autonomy in setting interest rates. *This follows examples* set in recent years by central banks in countries from France to New Zealand.

Mr Matsushita told his regional colleagues yesterday that even though the economy was recovering from the worst recession in 60 years, he saw no need to change the official discount rate, which has been held at a record low of 0.5 per cent for the past six months.



Yasuo Matsushita: no need for discount rate change

He also calmed some of the market anxiety aroused last week when he said he was unworried by the rise in long term rates, which are not directly guided by the BoJ.

He repeated that a change in the bank's legal status was needed, confirming that the bank is serious in its latest *attempt to distance itself* from its constitutional master, the finance ministry, whose responsibilities are being critically reassessed in the light of the banking crisis.

But given the BoJ's success in keeping Japanese inflation among the lowest in the industrialised world, even under the influence of the finance ministry, independence is not seen by the ruling Liberal Democratic party as urgent.

*Formally, branch managers* have no direct say on either of these matters. Accordingly, Mr Matsushita's speech, the only part of the meeting to be published, would have been greeted with polite assent.

One senior securities industry executive who used to be a BoJ manager recalls how a former branch chief once broke the stiff etiquette usual at these meetings and objected that the central bank had changed the official discount rate before the session, rather than listening to the news from the regions first. The governor of the time told the upstart to keep his mouth shut.

Even so, central bank officials insist that branch managers' views matter, because of what they know and who they are. The quarterly meeting, say officials, is one of the bank's two most valued sources of intelligence on the short-term economic outlook, the other being its own quarterly survey of businesses, the next issue of which is due in June.

And the branch managers who turn up to it are part of Japan's wide flung and diffuse policymaking establishment or candidates for it.

*The first person to speak* after the governor is, by tradition, general manager of the Osaka branch, currently Mr Eiichiro Kinoshuta. He was formerly head of the domestic banking division, a suitable background for supervising the region with the majority of Japan's weakest banks. Mr Kinoshuta also watches over a regional economy larger than that of Canada. Next to speak is his colleague from Nagoya.

*Both men can expect promotion* to departmental ahead – after another internal job – when they return to Tokyo after postings lasting up to three years. If all goes well, they could end up on the six-man executive committee, which prepares monetary policy for implementation by the policy board, the top decision-making body.

The other managers from smaller branches, around 10 of whom will speak, come from a less senior stream and are seen as on test for promotion to the fast track, says a former manager.

BoJ branches tend to be breeding grounds for senior officials rather than the very top. This is in part because BoJ officials' chances of landing the top job are limited by the tradition of taking turns with a candidate from the ministry, of which the current incumbent, Mr Matsushita, is an example. Only two bank governors since the war were trained as branch managers.

In short, BoJ branch managers' influence on policy is ambiguous, as is much of the structure of Japanese government. Much of the real business of the meeting takes place, in Japanese tradition, behind the scenes, over a tray of *sushi* and glass of beer after official hours in the directors' dining room.

But the quarterly meeting is worth watching for policy clues to the much gossiped-about change in Japanese monetary stance, late this year or early next, and to the central bank's search for independence.

INTERNATIONAL ECONOMIC INDICATORS: **MONEY AND FINANCE**

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

**UNITED STATES**

| | Narrow Money (M1) | Broad Money (M3) | Short Interest Rate | Long Interest Rate | Equity Market Yield |
|---|---|---|---|---|---|
| 1986 | 13.5 | 8.1 | 6.49 | 7.67 | 3.43 |
| 1987 | 11.6 | 6.5 | 6.82 | 8.39 | 3.12 |
| 1988 | 4.2 | 5.4 | 7.65 | 8.84 | 3.61 |
| 1989 | 1.0 | 4.2 | 8.99 | 8.50 | 3.43 |
| 1990 | 3.6 | 5.5 | 8.06 | 8.55 | 3.60 |
| 1991 | 6.0 | 3.7 | 5.87 | 7.86 | 3.21 |
| 1992 | 12.4 | 2.0 | 3.75 | 7.00 | 2.95 |
| 1993 | 11.6 | 1.2 | 3.22 | 5.86 | 2.78 |
| 1994 | 6.2 | 1.4 | 4.67 | 7.08 | 2.86 |
| 1995 | -0.3 | 2.1 | 5.93 | 6.57 | 2.61 |
| 2nd qtr.1995 | 0.2 | 1.1 | 6.03 | 6.60 | 2.68 |
| 3rd qtr.1995 | -0.6 | 3.0 | 5.79 | 6.32 | 2.53 |
| 4th qtr.1995 | -1.8 | 4.0 | 5.73 | 5.88 | 2.38 |
| 1st qtr.1996 | | | 5.30 | 5.89 | 2.21 |
| April 1995 | 0.7 | 0.4 | 6.12 | 7.05 | 2.74 |
| May | 0.2 | 0.9 | 6.05 | 6.63 | 2.68 |
| June | -0.1 | 2.1 | 5.94 | 6.16 | 2.81 |
| July | -0.5 | 2.4 | 5.80 | 6.26 | 2.55 |
| August | -0.5 | 3.1 | 5.82 | 6.50 | 2.55 |
| September | -0.9 | 3.5 | 5.74 | 6.19 | 2.48 |
| October | -1.5 | 3.7 | 5.81 | 6.03 | 2.46 |
| November | -1.7 | 3.9 | 5.74 | 5.93 | 2.42 |
| December | -2.1 | 4.3 | 5.63 | 5.71 | 2.24 |
| January 1996 | -2.6 | 4.6 | 5.42 | 5.64 | 2.26 |
| February | -2.7 | 5.0 | 5.15 | 5.81 | 2.17 |
| March | | | 5.31 | 6.26 | 2.19 |

**JAPAN**

| | Narrow Money (M1) | Broad Money (M2+CDs) | Short Interest Rate | Long Interest Rate | Equity Market Yield |
|---|---|---|---|---|---|
| 1986 | 6.9 | 8.2 | 5.12 | 5.35 | 0.84 |
| 1987 | 10.5 | 11.5 | 4.15 | 4.64 | 0.55 |
| 1988 | 8.4 | 10.4 | 4.43 | 4.77 | 0.54 |
| 1989 | 4.1 | 10.6 | 5.31 | 5.16 | 0.48 |
| 1990 | 2.6 | 8.5 | 7.62 | 6.90 | 0.65 |
| 1991 | 5.2 | 2.0 | 7.21 | 6.40 | 0.75 |
| 1992 | 4.5 | -0.4 | 4.28 | 5.24 | 1.00 |
| 1993 | 3.0 | 1.4 | 2.83 | 4.18 | 0.87 |
| 1994 | 5.4 | 2.9 | 2.12 | 4.20 | 0.78 |
| 1995 | 8.2 | 3.2 | 1.12 | 3.39 | 0.86 |
| 2nd qtr.1995 | 6.1 | 3.3 | 1.23 | 3.27 | 0.93 |
| 3rd qtr.1995 | 8.6 | 2.8 | 0.86 | 3.05 | 0.86 |
| 4th qtr.1995 | 12.9 | 3.2 | 0.43 | 2.88 | 0.81 |
| 1st qtr.1996 | | | 0.49 | 3.16 | 0.76 |
| April 1995 | 5.6 | 3.2 | 1.37 | 3.52 | 0.92 |
| May | 5.9 | 3.3 | 1.24 | 3.35 | 0.91 |
| June | 7.0 | 3.3 | 1.09 | 2.98 | 0.96 |
| July | 7.2 | 2.9 | 0.80 | 2.91 | 0.91 |
| August | 8.6 | 2.9 | 0.71 | 3.25 | 0.85 |
| September | 9.9 | 2.8 | 0.46 | 2.97 | 0.82 |
| October | 12.1 | 2.7 | 0.41 | 2.89 | 0.83 |
| November | 13.9 | 3.4 | 0.44 | 2.88 | 0.83 |
| December | 12.8 | 3.2 | 0.42 | 2.86 | 0.77 |
| January 1996 | 14.7 | 3.1 | 0.45 | 3.10 | 0.75 |
| February | 16.0 | 2.8 | 0.50 | 3.19 | 0.75 |
| March | | | 0.51 | 3.18 | 0.77 |

**GERMANY**

| | Narrow Money (M1) | Broad Money (M3) | Short Interest Rate | Long Interest Rate | Equity Market Yield |
|---|---|---|---|---|---|
| 1986 | 9.9 | 7.3 | 4.64 | 5.90 | 1.79 |
| 1987 | 9.0 | 7.3 | 4.03 | 6.14 | 2.21 |
| 1988 | 9.8 | 6.4 | 4.34 | 6.46 | 2.61 |
| 1989 | 6.3 | 5.7 | 7.12 | 6.90 | 2.22 |
| 1990 | 4.5 | 4.5 | 8.48 | 8.66 | 2.11 |
| 1991 | 5.1 | 6.6 | 9.25 | 8.42 | 2.38 |
| 1992 | 7.1 | 8.2 | 9.52 | 7.80 | 2.45 |
| 1993 | 8.4 | 7.9 | 7.28 | 6.47 | 2.11 |
| 1994 | 9.6 | 9.0 | 5.36 | 6.86 | 1.77 |
| 1995 | 3.7 | -0.0 | 4.53 | 6.82 | 2.00 |
| 2nd qtr.1995 | 2.8 | -1.1 | 4.60 | 6.87 | 2.09 |
| 3rd qtr.1995 | 3.2 | -0.7 | 4.41 | 6.88 | 1.98 |
| 4th qtr.1995 | 4.9 | 1.3 | 4.01 | 6.32 | 2.02 |
| 1st qtr.1996 | | | 3.45 | 6.17 | 1.88 |
| April 1995 | 2.4 | -1.3 | 4.68 | 7.07 | 2.12 |
| May | 3.7 | -1.4 | 4.59 | 6.85 | 2.10 |
| June | 2.4 | -0.7 | 4.53 | 6.70 | 2.06 |
| July | 2.9 | -1.2 | 4.56 | 6.79 | 2.01 |
| August | 3.4 | -0.6 | 4.46 | 6.71 | 1.97 |
| September | 3.5 | -0.1 | 4.19 | 6.56 | 1.96 |
| October | 4.0 | 0.4 | 4.09 | 6.55 | 2.04 |
| November | 4.4 | 1.0 | 4.01 | 6.32 | 2.04 |
| December | 6.3 | 2.5 | 3.94 | 6.07 | 1.97 |
| January 1996 | 6.2 | 3.7 | 3.62 | 5.90 | 1.88 |
| February | 9.7 | 5.9 | 3.35 | 6.18 | 1.86 |
| March | | | 3.35 | 6.44 | 1.91 |

**FRANCE**

| | Narrow Money (M1) | Broad Money (M3) | Short Interest Rate | Long Interest Rate | Equity Market Yield |
|---|---|---|---|---|---|
| 1986 | 6.9 | 6.4 | 7.79 | 8.36 | 2.65 |
| 1987 | 4.1 | 11.5 | 8.63 | 9.46 | 2.75 |
| 1988 | 3.9 | 8.3 | 7.94 | 9.08 | 3.69 |
| 1989 | 7.5 | 10.0 | 9.40 | 8.79 | 2.88 |
| 1990 | 3.8 | 9.3 | 10.32 | 9.92 | 3.19 |
| 1991 | -4.9 | 2.4 | 9.62 | 9.03 | 3.58 |
| 1992 | -0.2 | 5.4 | 10.36 | 8.57 | 3.55 |
| 1993 | 1.6 | -2.2 | 8.55 | 6.75 | 3.21 |
| 1994 | 2.7 | 0.8 | 5.84 | 7.21 | 2.99 |
| 1995 | 8.8 | 4.8 | 6.60 | 7.53 | 3.17 |
| 2nd qtr.1995 | 1.3 | 3.1 | 7.47 | 7.59 | 3.10 |
| 3rd qtr.1995 | 3.3 | 3.9 | 6.12 | 7.35 | 3.11 |
| 4th qtr.1995 | 8.8 | 4.8 | 6.14 | 7.10 | 3.25 |
| 1st qtr.1996 | | | 4.47 | 6.55 | 3.10 |
| April 1995 | 0.0 | 2.4 | 7.78 | 7.80 | 3.11 |
| May | 1.9 | 3.2 | 7.48 | 7.54 | 3.05 |
| June | 1.3 | 3.1 | 7.18 | 7.45 | 3.14 |
| July | 0.5 | 3.0 | 6.44 | 7.42 | 3.09 |
| August | 1.3 | 3.9 | 5.96 | 7.30 | 3.06 |
| September | 3.3 | 3.9 | 5.98 | 7.34 | 3.19 |
| October | 0.0 | 3.1 | 6.89 | 7.47 | 3.31 |
| November | 2.2 | 4.0 | 5.90 | 7.06 | 3.20 |
| December | 8.8 | 4.8 | 5.60 | 6.76 | 3.23 |
| January 1996 | 5.5 | 3.8 | 4.70 | 6.44 | 3.08 |
| February | | | 4.42 | 6.56 | 3.11 |
| March | | | 4.27 | 6.64 | 3.10 |

**ITALY**

| | Narrow Money (M1) | Broad Money (M2) | Short Interest Rate | Long Interest Rate | Equity Market Yield |
|---|---|---|---|---|---|
| 1986 | 10.5 | 8.4 | 13.25 | 11.47 | 1.41 |
| 1987 | 10.4 | 9.6 | 11.32 | 10.58 | 1.94 |
| 1988 | 7.8 | 8.5 | 11.24 | 10.54 | 2.71 |
| 1989 | 7.1 | 9.3 | 12.42 | 11.61 | 2.46 |
| 1990 | 9.3 | 10.1 | 11.98 | 11.87 | 2.84 |
| 1991 | 7.3 | 8.5 | 11.83 | 13.20 | 3.45 |
| 1992 | 6.7 | 7.7 | 13.86 | 13.29 | 3.63 |
| 1993 | 4.6 | 7.4 | 10.22 | 11.23 | 2.35 |
| 1994 | 6.6 | 5.1 | 8.48 | 10.56 | 1.67 |
| 1995 | 0.6 | 0.6 | 10.38 | 12.22 | 1.72 |
| 2nd qtr.1995 | -0.0 | -0.4 | 10.69 | 12.71 | 1.76 |
| 3rd qtr.1995 | 0.0 | 0.5 | 10.52 | 11.79 | 1.64 |
| 4th qtr.1995 | 0.9 | 2.1 | 10.60 | 11.59 | 1.77 |
| 1st qtr.1996 | | | 9.88 | 10.57 | 1.74 |
| April 1995 | -0.4 | -0.8 | 10.84 | 13.44 | 1.72 |
| May | 0.5 | -0.1 | 10.41 | 12.37 | 1.68 |
| June | -0.2 | -0.1 | 10.85 | 12.41 | 1.86 |
| July | -0.6 | -0.4 | 10.88 | 12.23 | 1.75 |
| August | -0.0 | 0.4 | 10.44 | 11.67 | 1.58 |
| September | 0.6 | 1.5 | 10.26 | 11.49 | 1.61 |
| October | 0.5 | 1.6 | 10.69 | 11.94 | 1.76 |
| November | 0.5 | 2.0 | 10.60 | 11.64 | 1.81 |
| December | 1.6 | 2.6 | 10.51 | 11.18 | 1.74 |
| January 1996 | 1.0 | 2.8 | 10.01 | 10.47 | 1.65 |
| February | -1.0 | 2.4 | 9.84 | 10.54 | 1.67 |
| March | | | 9.80 | 10.71 | 1.90 |

**UNITED KINGDOM**

| | Narrow Money (M0) | Broad Money (M4) | Short Interest Rate | Long Interest Rate | Equity Market Yield |
|---|---|---|---|---|---|
| 1986 | 4.0 | 15.4 | 11.02 | 10.21 | 4.35 |
| 1987 | 4.7 | 15.2 | 9.77 | 9.69 | 3.60 |
| 1988 | 6.8 | 17.3 | 10.41 | 9.62 | 4.48 |
| 1989 | 5.9 | 17.6 | 13.96 | 10.11 | 4.36 |
| 1990 | 5.3 | 16.1 | 14.82 | 11.56 | 5.07 |
| 1991 | 2.4 | 8.0 | 11.58 | 10.06 | 4.97 |
| 1992 | 2.4 | 5.1 | 9.74 | 9.09 | 4.91 |
| 1993 | 4.8 | 3.5 | 5.99 | 7.40 | 4.01 |
| 1994 | 6.4 | 4.9 | 5.57 | 8.01 | 3.94 |
| 1995 | 6.0 | 7.1 | 6.77 | 8.16 | 4.15 |
| 2nd qtr.1995 | 6.0 | 6.2 | 6.76 | 8.19 | 4.21 |
| 3rd qtr.1995 | 5.8 | 8.2 | 6.87 | 8.09 | 4.08 |
| 4th qtr.1995 | 5.5 | 9.3 | 6.71 | 7.77 | 4.04 |
| 1st qtr.1996 | 5.5 | | 6.28 | 7.72 | 4.15 |
| April 1995 | 6.3 | 5.5 | 6.78 | 8.38 | 4.27 |
| May | 5.9 | 6.4 | 6.79 | 8.13 | 4.19 |
| June | 5.7 | 6.8 | 6.73 | 8.09 | 4.17 |
| July | 5.7 | 8.0 | 6.89 | 8.23 | 4.11 |
| August | 6.1 | 8.4 | 6.88 | 8.10 | 4.07 |
| September | 5.5 | 8.2 | 6.83 | 7.92 | 4.06 |
| October | 5.2 | 8.9 | 6.81 | 8.09 | 4.04 |
| November | 5.6 | 9.3 | 6.73 | 7.76 | 4.05 |
| December | 5.7 | 9.7 | 6.57 | 7.46 | 4.04 |
| January 1996 | 5.2 | 10.5 | 6.45 | 7.41 | 4.19 |
| February | 6.0 | 10.1 | 6.24 | 7.72 | 4.06 |
| March | 5.4 | | 6.14 | 8.05 | 4.19 |

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

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# New-look Peruvian cabinet to greet IMF

By Sally Bowen in Lima

An International Monetary Fund delegation due to return to Lima this week will find it is dealing with an extensively overhauled cabinet, a new prime minister and less resistance to free-market reforms and privatisation.

The surprise resignation last week of Mr Dante Cordova, prime minister, gave President Alberto Fujimori the opportunity to give the cabinet a more homogeneous and technocratic look.

The new economic direction is likely to be appreciated by the IMF mission, which will renew negotiations over a three-year extended fund facility being sought by Peru.

Within 36 hours of Mr Cordova's resignation, half of his cabinet had their formal offers to step down accepted. Those replaced generally shared the concerns of Mr Cordova on the social impact of the economic reform programme.

Four engineers and an economist were sworn in as ministers on Wednesday evening, leaving the education and health ministries unfilled.

Mr Daniel Hokama, who has headed the government team in negotiations with Shell and Mobil over development of the huge Camisea gas fields, returns to his earlier post at the mines and energy ministry.

Ms Elsa Carrera, formerly head of Mr Fujimori's massive school-building programme, was given the transport and communications portfolio. Both she and Mr Hokama are loyal to the president.

The appointment of Mr Alberto Pandolfi to the premiership – and the fisheries ministry – was unexpected but welcomed.

He has been involved in several successful privatisations and has presided over the sensitive process of selling off Petroperu, the state oil producer and refiner.

Several key ministers were ratified in their posts, notably Mr Jorge Camet as economy and finance minister, Mr Francisco Tudela at foreign affairs, and Mr Jaime Yoshiyama in the ministry of the presidency.

Peruvian businessmen and foreign analysts have backed the composition of the new cabinet. International investor confidence is crucial at present as Peru is soon to launch an estimated $1.4bn offering of state-owned shares in now-privatised Telefonica del Peru.

With disappointing production and inflation indicators for the start of the year, and large trade and current account deficits, the Peruvian government is keen to present an image of unity.

Alberto Fujimori: opportunity

# Clinton set to defend Brown's legacy

## Commerce department remains leading target of Republican budget cutters

The mourning had just begun when US President Bill Clinton last Wednesday went to the commerce department to console employees after the death of Mr Ron Brown, whose aircraft had crashed into a Croatian hillside that day.

Mr Clinton brought a message from Mrs Alma Brown, the commerce secretary's widow. "Tell them Ron was proud of them, that he liked them, that he believed in them and he fought for the commerce department. And tell them you are going to do that now."

The message was welcomed. Despite Mr Brown's achievements, or perhaps because of them, the department remains the leading target of Republican budget cutters. Both houses last year passed bills promising to dismember the department, but these have been held at bay by a threatened presidential veto. The House of Representatives majority leader, Mr Dick Armey, has vowed to return to the attack when Congress returns from its spring break.

By the time the Republicans took control of Congress last year, Mr Brown had largely succeeded in his aim of making his department "a powerhouse" in Washington. The secretary brought in talented blacks, Latinos and Asians and used them to promote trade ties in the countries of their ancestors.

Mr Brown was the first secretary to make sense of commerce's many and varied agencies – ranging from the census bureau to the technology administration and the weather bureau. He laid out the department's missions very simply. It was to promote exports, new technologies, the information superhighway and economic development for troubled regions of the US.

"I believe we will look back at this time, and Ron will be seen as someone who defined the mission in a way that made sense in this economy," said Ms Marge Searing, deputy assistant secretary for Japan.

Mr Brown did much to boost employee morale, said Ms Searing who has served under seven administrations. One of his early acts was to reopen for all employees the "secretary's entrance", more convenient than other entrances to the building in Washington but which was closed by one of his predecessors to all but high-level officials and distinguished visitors.

The department's career bureaucrats, ridiculed under previous administrations, grew accustomed to Mr Brown dropping by for a chat and drinking coffee in the staff cafeteria. In the past few days these workers have wandered from office to office consoling each other.

Ms Anne Alonzo, a deputy assistant secretary, went ahead with a meeting on Friday between representatives from 40 US companies and a Russian delegation shopping for environmental technologies. "The pro-activity, the dynamism is Ron Brown's legacy," she said. "He was so clear in his mission that we didn't have to be told what he would have wanted to have done."

No one has yet publicly engaged in the savoured Washington sport of speculating about the succession, but two possible candidates to replace Mr Brown, perhaps temporarily, are at hand: Mr Stuart Eizenstat, a former EU ambassador, who was sworn in as under secretary last week, and Mr Thomas "Mack" McLarty, the president's boyhood friend and White House adviser.

"Time will be needed for those involved to catch their breath and think about filling the leadership vacuum," said Mr Joseph Grandmaison, director of the US trade and development agency. "The job is different now because of Ron Brown. He took what was an irrelevant agency and made it a key player."

Mr Clinton seems particularly shaken by the loss of his commerce secretary, whose political counsel he sought as much as his policy advice. At a ceremony on Saturday, when the bodies of the victims in the Croatian crash were brought back to the US, Mr Clinton spoke of his resolve "to continue their mission of peace and healing and progress" in Bosnia. But he will also need time to find a replacement to fill the very large shoes of his friend.

**Nancy Dunne**

**Among the 35 victims of the air crash in Croatia was Mr Lee Jackson, a director of the European Bank for Reconstruction and Development, writes Kevin Done, East Europe Correspondent. Mr Jackson, 37, was appointed as the US director of the EBRD by President Clinton in August last year.**

**Mr Jacques de Larosière, EBRD president, said Mr Jackson's death was "a terrible loss" for the bank and a great personal loss. "He was respected and admired for his unwavering commitment to the goals of the bank and his warm engaging personality."**

**Mr Jackson had joined the EBRD as US alternate director in September 1993 after a five-year period as treasurer of the city of Boston, Massachusetts. At the EBRD he emerged quickly as one of the leading forces in the board and played a key role in negotiations with the US administration over the bank's recent plans to double its capital base to Ecu20bn ($25bn).**

**The increase is expected to be approved at the EBRD's annual meeting in Bulgaria later this month.**

**Mr Jackson had been a chief advocate of greater openness at the EBRD and was playing a leading role in plans for promoting public access to EBRD project information.**

**In the US, he had specialised in public and municipal finance in a succession of posts at Kidder Peabody, Salomon Brothers and the First Boston Corporation, where he was a vice-president.**

# Quebec secession threat is 'fading'

By Robert Chote, Economics Editor

The referendum on independence for Quebec last October might be the last and the threat of secession is fading as its economic costs become clearer, according to Mr Paul Martin, Canadian finance minister.

In an interview, Mr Martin welcomed the fact that Quebec's new leadership had chosen to make the economy, rather than the constitutional question, its first priority. "There appears to be a growing recognition in the province that you cannot just keep having referendums indefinitely [until you get the result you want]. One can conceive that the era of ongoing referendums is gone."

But he conceded "it would be premature to say today that the political debate is on ice".

It was clear to Quebeckers that calls for secession had deterred investment and involved other economic costs, Mr Martin said. But he noted that even the separatists had said Quebec would accept its share of Canada's debt obligations, knowing this would affect their own financial credibility.

Mr Martin argued that an early election in Canada was unlikely, even though the Liberal government was popular and the opposition parties were divided. He said he was surprised by the reaction of political commentators to his fiscal package in February: "People called it an election budget, which really boggled my mind. I would be very surprised if we saw an early election."

INTERNATIONAL NEWS DIGEST

# HK group wins Shanghai deal

Shui On, a Hong Kong property and construction group, yesterday announced it had signed an agreement to develop a HK$5bn ($650m) housing estate in Shanghai. The project, to be known as Rainbow City, is expected to provide housing for 80,000 Shanghai residents. It will be completed in phases over the next 10 years and will also include commercial and recreational facilities.

The site will be developed through a joint venture between Shui On and the Zhong Hong Group, a company controlled by the Hong Kou district of Shanghai where the housing estate will be built. Mr Xue Quan-rong, head of the Hong Kou district government, said redevelopment of the older areas of the city was an urgent task and was necessary to improve living standards. Housing demand in Shanghai has increased rapidly as a result of strong economic expansion.

For Shui On, the project is the latest in a series in Shanghai. Since 1985 it has built the City Hotel, the Jin Ming Mansion and is working on the Shui On Plaza. It also has developments in Beijing, Wuxi, and Guangzhou. *John Ridding, Hong Kong*

## Sri Lanka extends emergency

A state of emergency was imposed throughout Sri Lanka yesterday, in a surprise move described by the opposition as an attempt to scuttle local council elections billed as a crucial mid-term test for the government.

President Chandrika Kumaratunga, extending the emergency which was earlier restricted to the north-eastern region and a few towns considered vulnerable to attacks by the separatist Tamil Tiger guerrillas, said the proclamation was "for the preservation of public order and maintenance of supplies and services essential to the life of the community".

The move stunned even some governing party politicians and came amid efforts to restore foreign investor confidence shattered by the January bombing of the central bank in which 91 people died and 1,400 were wounded. Mr Ranil Wickremesinghe, opposition leader, said the action was aimed at gaining political advantage rather than due to security considerations. *Amal Jayasinghe, Colombo*

## Fighting flares in Liberia

The US was yesterday considering evacuating American and other foreign nationals from Liberia, where the capital Monrovia has been rocked by some of the worst fighting seen between rival militias in four years.

Diplomats said a US military team was heading from Europe to neighbouring Sierra Leone and would fly in by helicopter to assess the situation in the West African coastal city, still echoing with the sound of automatic rifle fire and grenade explosions.

The Easter weekend fighting, the worst since 1992, has sent thousands of Liberians fleeing Monrovia, while others have sought refuge in embassies. Up to 10,000 Liberians were said to be sheltering in a US embassy annexe.

The clashes started on Saturday when police and militiamen loyal to Mr Charles Taylor, a former rebel leader now in government, attacked the home of a rival faction head wanted for murder. Mr Roosevelt Johnson, recently ousted from his job as rural development minister, refused to surrender. He and his supporters then fled to a former army barracks and the conflict escalated as they were joined by members of another faction.

The fighting deals a body blow to the credibility of Liberia's ruling council of state, set up in August after years of regionally brokered peace negotiations and abandoned agreements. *Michela Wrong, Nairobi and agencies*

# Minister appeals to Japan on imports

By William Dawkins in Tokyo and George Parker at Westminster

Mr Ian Lang, UK trade and industry secretary, yesterday urged Japan to deregulate its import markets as he left London with more than 100 senior executives on Britain's largest trade mission to Japan.

The mission marks heightened UK pursuit of a Japanese domestic market which is showing an increased appetite for imports in the wake of five years of recession and a strong currency.

*Mr Lang, the fourth UK minister to* visit Japan this year, will tour Tokyo and the industrial centres of Nagoya, Osaka and Kobe for four days until Friday. Trade as well as regional interests will be pursued by Mr Jeremy Han*ley, the Foreign Office minister respon*sible for Asia, who will arrive tomorrow.

The delegation with the British ministers represents sectors including telecommunications, power generation, financial services, electronics, healthcare and garden equipment. Among the companies present are British Telecommunications, British Nuclear Fuels, Guinness and Kleinwort Benson.

Mr Lang will address a seminar on Britain's experience of economic deregulation at the Keidanren economic *federation. He will also take part in* trade promotions and meet senior Japanese ministers and business executives.

Mr Lang said in London that a priority of his mission would be improved access to the Japanese telecommunications market, where the Japanese government last month promised to ease restrictions in 1997 on the connection of international leased lines to local networks.

"I am keen to get more access into the Japanese market, to see more deregulation in Japan," Mr Lang told BBC Radio. "You don't break into a market like Japan overnight. It does need a bit of patience and persistence."

British companies accounted for 4.5 per cent of investment in Japan, which *was more than most other European* nations, Mr Lang added. Britain exported more to Japan than France and Italy. Britain has improved its share of Japan's domestic market in the past year, and has followed the *European Union's policy of avoiding the* threats of trade sanctions used by US trade negotiators.

UK exports to Japan rose by 26.1 per cent to £3.77bn ($5.73bn) in 1995, outstripping Japan's average import growth rate of 22.6 per cent in the year. Britain's imports from Japan grew more slowly, by 9.4 per cent to £9.73bn, leaving a £5.96bn UK trade deficit with Japan.

Investment in the UK, which attracts envy elsewhere in the European Union for having the single largest share of *Japanese plants in the region, will also* be on Mr Lang's agenda. The 232 Japanese manufacturing plants now based in the UK represent 40 per cent of Japan's manufacturing investment in the EU.

# Offer to Names soon to increase by at least $300m

By Ralph Atkins, Insurance Correspondent

Lloyds of London is set to increase to more than £3bn the proposed out-of-court offer to Names which forms part of the insurance market's ambitious recovery plan due for implementation this summer.

The increase of at least £200m ($304m) from the current £2.8bn will fall short of expectations of many Names, individuals whose assets have traditionally supported Lloyd's. But Lloyd's hopes any disappointment will be offset by revisions to the costing of the establishment of Equitas, a reinsurance company which will take over heavy US asbestos and pollution-related liabilities.

LLOYD'S
LLOYD'S OF LONDON

Provisional figures agreed with the UK government suggest that the cost to Names of drawing a line under their affairs at Lloyd's by shifting liabilities into Equitas will be lower than expected. The out-of-court offer, as well as ending litigation for damages, is meant to soften the cost of Equitas.

Still to be decided is whether to include auditors involved in litigation at Lloyd's in the offer. Auditors are understood to have offered about £100m, a figure considered derisory by many Names. If auditors are excluded, Lloyd's may be able to find similar funds from other sources. Names could then continue pursuing auditors in court.

The ruling council of Lloyd's will meet tomorrow to discuss revisions to the recovery plan, launched a year ago. But further meetings may be required before a revised offer is launched. Names were given first indication of their Equitas bills and settlement offer allocations last month. Final statements are due to be dispatched at the end of May.

Excluding auditors could have knock-on effects, prompting the agents which run Lloyd's syndicates to lower their proposed contributions because of fears they might be joined by auditors in outstanding court actions. Names are already dissatisfied at the proposed £200m contribution from agents and are threatening to call a divisive extraordinary general meeting if the total is not increased. Insurance brokers are close, however, to agreeing a £100m contribution.

# US chemicals group aims to double sales by 2000

By Peter Marsh and Jenny Luesby in London

Jon Huntsman: many potential acquisition targets too expensive

Huntsman, the privately-owned US chemical company, plans to invest up to $300m in the UK as part of a $1.5bn worldwide investment programme intended to double its output by the end of the decade. Roughly half the UK investment will be spent on Huntsman's biggest British plant – at Carrington in northern England – which makes polystyrene.

Huntsman plans to add 150,000 tonnes a year of capacity to the plant's existing 135,000 tonnes a year. The production of plastics is not labour-intensive, but the expansion will create 30 permanent jobs. The company intends to double its global output of polystyrene to 1.17m tonnes by the end of 1998.

Huntsman is the second-largest producer of the plastic in the US. The planned expansion could make it the largest producer in the world, though its main competitors, Dow, BASF and Elf Atochem, are also pursuing expansion plans.

Mr Jon Huntsman, chairman and majority owner, said the company aimed to double its sales over the next five years from $4.3bn last year. Huntsman has expanded strongly in recent years through acquisitions of other chemical companies. However, the recovery in the chemicals industry last year had made many potential acquisition targets too expensive, Mr Huntsman said.

He did not rule out more acquisitions, but said most of the company's growth in the next few years would come from increasing output at existing plants.

The company was also keen to boost its European presence. Europe accounted for less than 15 per cent of sales last year, but would receive more than a quarter of the new investment, he said.

A "disproportionate amount" of this would be in the UK, Mr Huntsman added. Three of the company's six European plants were in the UK, where they formed a base for the whole of Europe – with the majority of Carrington's polystyrene output sold outside the UK.

The company also has a packaging plant in Skelmersdale, north-west England, and a speciality chemicals plant in Llanelli in south Wales.

The expansion plans come amid fears that the polystyrene market is becoming over-supplied. Mr Huntsman acknowledged that the market was "heading for a crunch".

He said: "As a private company, we do not need to monitor our performance quarter by quarter. This is an investment for the long term, and we believe the long-term outlook for polystyrene is excellent."

# Kawasaki hails purchasing success

By Michael Cassell, Business Correspondent

One of Japan's largest engineering and consumer products groups says its campaign to buy more British *component and material sup*plies has been an "outstanding success".

Kawasaki Heavy Industries teamed up with British ministers last July to launch a high-profile initiative aimed at extending the company's UK procurement programme. Kawasaki said at the time that it spent about £40m ($61m) a year in the UK, but wanted to raise the proportion of components and materials purchased in Britain for use in a range of manufacturing activities in Japan.

Mr Suematsu Kondo, managing director of Kawasaki Heavy Industries (UK), claimed during the weekend that the expanded purchasing programme had fulfilled the company's expectations despite early concerns that it might prove too ambitious.

He said the value of purchases in the UK had already risen by about 20 per cent since the launch. He expected an even higher rate of increase during the remainder of 1996, a performance which should lift Kawasaki's annual procurement bill in the UK to almost £60m.

"We have been particularly successful in securing supplies in sectors such as marine equipment, rolling stock and aerospace," Mr Kondo added. "We insist on high quality, competitive prices and good delivery performance and we are getting them from UK suppliers."

When Kawasaki announced its purchasing drive, Mr Ian Lang, UK trade and industry secretary, expressed hopes that Kawasaki's UK purchases might double to £80m in the following 12 months. The Department of Trade and Industry said this weekend, however, that the figure represented "an aim rather than a set target" and that the purchasing programme was "moving in the right direction".

## UK NEWS DIGEST

# BBC terminates Arabic contract

BBC Worldwide said it was terminating a 10-year agreement worth about £100m ($152m) to broadcast eight hours a day of television news and current affairs in Arabic to the Middle East. Its satellite service, BBC Arabic Television, was provided under contract to Orbit Communications, a Rome-based company owned by the Mawarid Group of Saudi Arabia.

The issue that has prompted the BBC to begin termination negotiations was the interruption of the service in January when reports were being broadcast on the case of Dr Mohammed al-Masaari, the Saudi opposition figure who has been fighting deportation from the UK. Last Thursday, BBC Arabic Television broadcast to the Middle East a Panorama programme showing secretly shot film of executions in Saudi Arabia of people found guilty of adultery. As a result of the termination, about 250 jobs, most of them involving Arabic-speaking journalists, are threatened at BBC Television Centre in London. *Raymond Snoddy, Consumer Industries Staff*

## Latin America drugs curb urged

Mr Malcolm Rifkind, foreign secretary, began an eight-day visit to Latin America and the Caribbean to press for new measures to tackle the drugs trade. "What we have been finding is that when routes are *cut off, new routes spring up* around Latin America," said a Foreign Office official. "That is why we have widening dialogue with countries that are not producers but are transit countries." Mr Rifkind will visit Barbados, Jamaica, Mexico, Brazil and Bolivia.
*George Parker, Westminster*

## Teachers' union leader defeated

Leftwing delegates at the National Union of Teachers defeated a bold attempt by its executive to weaken the power of the union's conference. The executive had proposed putting all measures adopted by the conference to a ballot by the whole membership. The vote came as the union, the biggest teachers' union in Britain, committed itself to balloting members on industrial action in support of any teachers "victimised" by inspections from Ofsted, the schools inspectorate, which will from next term have the power to name individual poor teachers.

The vote against curbing the power of the conference is a serious setback to attempts to curb the excesses of the NUT's national conference, which has repeatedly in recent years generated embarrassing press coverage with calls for industrial action on a range of issues, and demonstrations by extreme leftwing fringe groups. Mr Doug McAvoy, the union's general secretary, said it was a "sad day" for the union, but refused to resign. *John Authers, Cardiff*

Editorial comment, Page 17

**Bank unlocked:** A woman customer of Barclays Bank was surprised on Friday to find a branch of the bank in Muswell Hill, north London, open even though all banks traditionally close on Good Friday. She entered the unlocked building where the alarm system had not been switched on, and called the police. "We are very concerned that a branch has been left open," said Barclays after establishing that nothing had been stolen before the woman arrived.

**Rocket theft:** Royal Navy rockets and a horsebox were among items worth almost £5m ($7.6m) stolen from government departments in the past five years, according to figures compiled by the opposition Labour party. The cost of theft to the taxpayer has risen from £416,000 in 1992 to almost £2m last year, a series of parliamentary answers revealed.



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# THE WEEK AHEAD

## UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
**Fairway**, 35, New Broad Street, E.C., 11.00
**Lloyds Abbey Life**, Royal Horticultural Halls, Greycoat Street, S.W., 12.00
**Pendragon**, Derbyshire County Cricket Club, Nottingham Road, Derby, 10.30

BOARD MEETINGS:
Finals:
**Dewhirst**
**Henderson American Cap & Inc Tst**
**Torday & Carlisle**

■ **TOMORROW**
COMPANY MEETINGS:
**Lazard Smaller Equities Inv Tst**, 21, Moorfields, E.C., 2.45
**Rank Org**, Queen Elizabeth II Conference Centre, Broad Sanctuary, W.C., 11.30
BOARD MEETINGS:
Finals:
**Alpha Airports**
**Charnos**
**Intermediate Capital**
**Moss Bros**
**Reece**
**Ruberoid**
**Sentry Farming**
**Smurfit (Jefferson)**
**Yule Catto**
Interim:
**Murray VCT**

■ **THURSDAY APRIL 11**
COMPANY MEETINGS:
**British Petroleum**, Barbican Centre, Barbican, E.C., 11.00
**Lloyds TSB**, Edinburgh Intl Conference centre, Edinburgh, 10.30
**Mersey Docks & Harbour**, Maritime Centre, Royal Seaforth Dock, Liverpool, 12.00

BOARD MEETINGS:
Finals:
**Amec**
**Eadie**
**Nurdin & Peacock**
**Rathbone Bros**
**Swallowfield**
**Tudor**
Interims:
**Cradley Grp**
**Prestwick**
**Toye**

■ **FRIDAY APRIL 12**
COMPANY MEETING:
**St. Modwen Properties**, Ironmongers Hall, Barbican, E.C., 12.00

BOARD MEETINGS:
Finals:
**Abbot**
**Tracker Network**

*Company meetings are annual general meetings unless otherwise stated.*

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

## DIVIDEND & INTEREST PAYMENTS

■ **YESTERDAY**
Barbour Index 3p
Barr (AG) 6.2p
Browning-Ferris $0.17
Burlington 0.7p
Cassidy Bros 0.75p
Finelist 1.9p
Flogas IR25p
Gibbs Mew 4p
Hawtin 1p
Intercare 2.8p
Jones Stroud 4p
Kleinwort Charter Inv Tst 4p
London Fin & Inv 0.7p
McMullen 6½% Cm Pf 3.25p
Do 10½% Cm Pf 5.25p
Mid Wynd Int Inv Tst 2.75p
Photobition 2.6p
River & Mercantile Tst 2.73p
Shani 4.5p
Westminster Health Care 2.35p
Widney 2.5p
Yorkshire Chemicals 5.85p

■ **TODAY**
Abbey National Treasury Services 9% Gtd Bd 2004 L450000.0
Acatos & Hutcheson 5.5p
Adscene 3.5p
Aoi Advertising FRN 1998 $3222.71
Ashtead 0.65p
Avesco 1.5p
BAT Cap 6% Gtd Nts 1998 $60.0
BP America 10½% Gtd Nts 1998 C$105.0
Bradstock 4.1p
British Assets Tst 1.13875p
Brunner Inv Tst 3.2p
Bullough 4.3p
Burford 1.1p
Carlton Comms 14.3p
Cavaghan & Gray 1.5p
Chemical Banking Snr FRN 2000 $147.08
Chrysalis 2.75p
DCS 0.5p
DKB Fxd/FRN Jul 2004 $16113.98
Electronic Data Processing 1.483p
Eurodis Electron 1.85p
Grand Metropolitan 9.4p
HSBC 9⅞% Sb Bd 2018 £987.50
Hanson 3p
Heiton IR0.95p
Hill & Smith 4.1p
Honeysuckle 0.5p
IAF 0.25p
Irish Permanent FRN 1998 £172.50
Kobe Steel FRN 1996 Y18879.0
Koito Mfg 6½% Bd 1999 Y650000.0
Lloyds Bank 9⅝% Sb Bd 2023 £96.25
Lonrho 1.25p
MBE Fin Gtd Dual Basis Bd 2004 $32154.14
Marshalls 1.5p
Matthew Clark 9p
Menvier-Swain 1.85p
Microgen 5.2p
Nippon Credit Bank Gtd Fxd/FRN Oct 2004 $3326.04
Norsk Hydro 8¼% Bd 1997 $412.50
PWS 0.25p
Peel 2p
Photo-Me Int 1.5p
PizzaExpress 0.7p
Porvair 3.7p
Prospect Inds 0.025p
Rank Org 8⅜% Bd 2000 £837.50
Ryland 1.17p
Savile Gordon (J)
Severn Trent 9.2p
Southern Water 9.8p
South West Water 9.8p
State Elec Comm of Victoria 11% Gtd Nts 2002 A$110.0
Svensk Exportkredit 8⅜% Nts 1996 $418.75
Sweden (Kingdom of) 6% Bd 1996 Y60000.0
Takashimaya FRN Jan 1998 Y21402.0
UK Rents (No 1) 9.1% Bd 2025 £91.0
Unilever Australia 12% Gtd Bd 1998 A$120.0
Warner Estate 7.9p
Wamford Invs 2.75p
Wessex Water 5p

■ **TOMORROW**
Alexanders 0.3p
Do A Rest/Vtg 0.3p
Bank of Melbourne FRN 1997 $15.67
Boustead 0.35p
Brooke Tool Eng 0.2p
Colefax & Fowler 0.75p
Domino Printing 6.4p
Dudley Jenkins 1.155p
First Leisure 5.39p
GGT 2.1p
Henlys 8p
Leo 1 Class B Mtg Bckd FRN 2035 £2167.01
Leo 2 Class B Mtg Bckd FRN 2032 £207.37
Lex Service 9p
Lothbury Fdg No 1 Class A1 Mtg Bckd FRN 2031 £991.50
Do Class A2 £1731.11
Do Class B £1930.02
Mitsui Fxd/FRN 1996 Y10664.0
Morris (Philip) $1.0
NFC 2.8p
Newport Borough Council 8⅞% Ln 2019 £4.4375
Siebe 4.44p
Sperati (CA) 25p
State Bank of New South Wales 11¾% Nts 1996 A$117.50
Stoves 1.7p
Syndicate Cap Tst 1p

■ **THURSDAY APRIL 11**
Abbey National First Cap Sb Gtd FRN 2003 $29.45
Asian Dev Bank 11% Bd 2001 £110.0
British Sky Broadcasting 2.5p
Budgens 0.35p
Collateralised Mtg Sec (No 11) Class B Mtg Bckd FRN 2028 £206.68
Conversion 10% 2002 £5.0
DKB Fxd/FRN Apr 2005 $32370.51
Flying Flowers 2.7p
Heavitree Brewery 3.75p
Do A Lim/Vtg 3.75p
Islington 12.65% Rd 2007 £6.325
Manganese Bronze 2.5p
Pendragon 6p
Philips Elec FL1.60

■ **FRIDAY APRIL 12**
AIM 1.5p
Alumasc 2.45p
Amstrad 1.25p
Argentaria Cap Fdg Class A 9% Non-Cm DM Euro Pf DM1.80
BWD Sec 3.3p
Centex $0.05
Conti Assets Tst 3p
Courts 2.1p
Enterprise Oil 11¾% Un Ln 2016 £5.8125
Eurotherm 4.5p
First Choice Holidays 2.45p
Gardiner 0.58p
Jacques Vert 2.25p
Jos Hldgs 3.33p
Lazard Smaller Equities Inv Tst 0.25p
M-R Grp 1.2p
River Plate & Gen Inv Tst 2p
Singapore Para Rubber Estates 3p
Stakis 1p
Tomkins 2.7p
Treatt 3.8p
Trust of Property Shares 1.7403p
Wholesale Fittings 3.5p
Wyko 1p

■ **SATURDAY APRIL 13**
Cornwell Parker 0.3p
Do A N/Vtg 0.3p
Treasury 9% Ln 2008 £4.50

■ **SUNDAY APRIL 14**
Australia (Commonwealth of) 9½% Ln 2012 £237.50



Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

| 1/2 hour period ending | Provisional Price for Trading on 07.04.96 – Pool purchase price £/MWh | Final Prices for Trading on 10.03.96 – Pool purchase price £/MWh | Pool selling price £/MWh |
|---|---|---|---|
| 0030 | 15.46 | 12.74 | 12.74 |
| 0100 | 9.22 | 17.74 | 19.13 |
| 0130 | 9.30 | 20.66 | 22.04 |
| 0200 | 15.54 | 20.66 | 22.04 |
| 0230 | 38.22 | 17.75 | 19.14 |
| 0300 | 38.22 | 16.37 | 17.75 |
| 0330 | 21.15 | 16.37 | 17.75 |
| 0400 | 18.48 | 15.97 | 17.36 |
| 0430 | 13.76 | 12.42 | 13.81 |
| 0500 | 13.14 | 9.70 | 9.70 |
| 0530 | 13.54 | 9.18 | 9.18 |
| 0600 | 13.54 | 9.18 | 9.18 |
| 0630 | 13.54 | 9.16 | 9.16 |
| 0700 | 13.54 | 9.16 | 9.16 |
| 0730 | 13.54 | 9.10 | 9.10 |
| 0800 | 13.54 | 9.06 | 9.06 |
| 0830 | 13.54 | 9.06 | 9.06 |
| 0900 | 13.54 | 9.16 | 9.16 |
| 0930 | 13.54 | 9.18 | 9.18 |
| 1000 | 13.54 | 10.79 | 12.18 |
| 1030 | 13.54 | 14.35 | 15.74 |
| 1100 | 13.54 | 14.35 | 15.74 |
| 1130 | 13.54 | 14.35 | 15.74 |
| 1200 | 13.54 | 17.56 | 18.94 |
| 1230 | 13.54 | 17.56 | 18.94 |
| 1300 | 13.52 | 17.56 | 18.94 |
| 1330 | 13.14 | 14.35 | 15.74 |
| 1400 | 13.14 | 12.62 | 14.01 |
| 1430 | 12.89 | 10.79 | 12.18 |
| 1500 | 12.89 | 9.68 | 9.68 |
| 1530 | 12.89 | 9.68 | 9.68 |
| 1600 | 12.89 | 9.68 | 9.68 |
| 1630 | 12.89 | 9.60 | 9.60 |
| 1700 | 12.89 | 9.60 | 9.60 |
| 1730 | 12.89 | 9.18 | 9.18 |
| 1800 | 12.89 | 9.70 | 9.70 |
| 1830 | 12.89 | 13.97 | 15.36 |
| 1900 | 12.89 | 17.74 | 19.13 |
| 1930 | 12.89 | 17.74 | 19.13 |
| 2000 | 12.89 | 17.74 | 19.13 |
| 2030 | 18.22 | 17.74 | 19.13 |
| 2100 | 21.91 | 15.50 | 16.88 |
| 2130 | 21.91 | 15.50 | 16.88 |
| 2200 | 21.91 | 15.50 | 16.88 |
| 2230 | 15.82 | 8.94 | 10.33 |
| 2300 | 15.82 | 9.68 | 9.68 |
| 2330 | 14.28 | 9.60 | 9.60 |
| 2400 | 9.22 | 9.14 | 9.14 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

| 1/2 hour period ending | Provisional Price for Trading on 08.04.96 – Pool purchase price £/MWh | Final Prices for Trading on 11.03.96 – Pool purchase price £/MWh | Pool selling price £/MWh |
|---|---|---|---|
| 0030 | 9.22 | 9.70 | 9.70 |
| 0100 | 8.98 | 14.41 | 14.72 |
| 0130 | 9.28 | 15.49 | 15.80 |
| 0200 | 15.82 | 15.49 | 15.80 |
| 0230 | 21.70 | 15.49 | 15.80 |
| 0300 | 21.70 | 15.49 | 15.80 |
| 0330 | 15.19 | 14.41 | 14.72 |
| 0400 | 15.19 | 14.41 | 14.72 |
| 0430 | 15.19 | 12.62 | 12.93 |
| 0500 | 15.19 | 8.94 | 9.25 |
| 0530 | 13.47 | 12.26 | 12.26 |
| 0600 | 13.47 | 12.30 | 12.30 |
| 0630 | 13.47 | 12.74 | 13.05 |
| 0700 | 13.47 | 14.70 | 15.03 |
| 0730 | 12.72 | 14.49 | 14.80 |
| 0800 | 12.72 | 16.88 | 17.15 |
| 0830 | 13.47 | 19.33 | 20.70 |
| 0900 | 13.47 | 24.17 | 26.37 |
| 0930 | 13.47 | 28.66 | 31.43 |
| 1000 | 14.19 | 30.60 | 33.51 |
| 1030 | 14.19 | 29.26 | 31.92 |
| 1100 | 14.19 | 27.48 | 29.84 |
| 1130 | 14.19 | 26.28 | 28.54 |
| 1200 | 14.19 | 26.51 | 28.80 |
| 1230 | 14.19 | 24.13 | 26.21 |
| 1300 | 14.19 | 20.98 | 22.67 |
| 1330 | 14.19 | 17.97 | 19.09 |
| 1400 | 13.06 | 16.80 | 17.68 |
| 1430 | 13.06 | 16.27 | 17.01 |
| 1500 | 13.06 | 16.11 | 16.81 |
| 1530 | 13.06 | 16.02 | 16.70 |
| 1600 | 13.06 | 14.70 | 14.70 |
| 1630 | 13.06 | 18.30 | 18.55 |
| 1700 | 13.06 | 22.48 | 24.52 |
| 1730 | 13.06 | 24.70 | 27.04 |
| 1800 | 13.06 | 35.55 | 39.43 |
| 1830 | 12.44 | 58.57 | 67.41 |
| 1900 | 12.44 | 70.45 | 80.43 |
| 1930 | 12.44 | 68.04 | 74.77 |
| 2000 | 15.48 | 37.53 | 41.65 |
| 2030 | 13.06 | 20.07 | 21.44 |
| 2100 | 17.17 | 15.26 | 15.85 |
| 2130 | 17.17 | 14.47 | 14.87 |
| 2200 | 17.17 | 14.08 | 14.41 |
| 2230 | 17.17 | 12.74 | 13.05 |
| 2300 | 17.17 | 12.30 | 12.30 |
| 2330 | 14.07 | 9.78 | 9.78 |
| 2400 | 9.26 | 9.80 | 9.80 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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| 1/2 hour period ending | Provisional Price for Trading on 09.04.96 – Pool purchase price £/MWh | Final Prices for Trading on 12.03.96 – Pool purchase price £/MWh | Pool selling price £/MWh |
|---|---|---|---|
| 0030 | 9.32 | 12.30 | 12.30 |
| 0100 | 8.97 | 10.99 | 11.26 |
| 0130 | 9.28 | 10.99 | 11.26 |
| 0200 | 14.43 | 10.99 | 11.26 |
| 0230 | 19.59 | 10.99 | 11.26 |
| 0300 | 19.59 | 10.99 | 11.26 |
| 0330 | 19.59 | 10.98 | 11.26 |
| 0400 | 14.07 | 12.30 | 12.30 |
| 0430 | 9.32 | 9.80 | 9.80 |
| 0500 | 9.30 | 9.80 | 9.80 |
| 0530 | 9.15 | 9.78 | 9.78 |
| 0600 | 9.32 | 9.70 | 9.70 |
| 0630 | 9.32 | 9.81 | 9.81 |
| 0700 | 13.17 | 14.75 | 15.13 |
| 0730 | 17.44 | 15.64 | 16.23 |
| 0800 | 23.95 | 18.11 | 19.28 |
| 0830 | 24.78 | 22.15 | 23.95 |
| 0900 | 48.28 | 28.60 | 29.22 |
| 0930 | 48.28 | 29.52 | 32.42 |
| 1000 | 48.28 | 29.64 | 32.50 |
| 1030 | 31.02 | 27.59 | 30.09 |
| 1100 | 24.78 | 26.57 | 28.91 |
| 1130 | 24.78 | 26.71 | 29.09 |
| 1200 | 24.78 | 27.42 | 29.91 |
| 1230 | 37.00 | 26.10 | 28.33 |
| 1300 | 37.00 | 23.12 | 24.96 |
| 1330 | 23.88 | 19.47 | 20.75 |
| 1400 | 23.95 | 17.81 | 18.83 |
| 1430 | 23.06 | 17.14 | 18.02 |
| 1500 | 23.06 | 16.81 | 17.74 |
| 1530 | 23.06 | 17.07 | 17.96 |
| 1600 | 23.06 | 18.26 | 19.41 |
| 1630 | 23.06 | 22.02 | 23.96 |
| 1700 | 23.06 | 27.28 | 30.00 |
| 1730 | 37.00 | 32.10 | 35.52 |
| 1800 | 37.00 | 40.18 | 45.11 |
| 1830 | 28.24 | 76.03 | 84.38 |
| 1900 | 28.24 | 83.00 | 91.55 |
| 1930 | 28.24 | 73.84 | 80.96 |
| 2000 | 9.32 | 49.31 | 52.78 |
| 2030 | 15.46 | 20.44 | 21.80 |
| 2100 | 43.38 | 15.78 | 16.36 |
| 2130 | 43.38 | 14.57 | 14.90 |
| 2200 | 43.38 | 14.33 | 14.61 |
| 2230 | 15.46 | 11.90 | 12.18 |
| 2300 | 14.41 | 12.30 | 12.30 |
| 2330 | 15.46 | 10.98 | 10.98 |
| 2400 | 9.24 | 9.80 | 9.80 |

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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**Staples, Inc.**
4½% Convertible Subordinated Debentures due October, 2000 (the "Debentures")

Staples, Inc. (the "Company") has effected a 3-for-2 stock split in the form of a 50% stock dividend payable March 25, 1996 to holders of record of its Common Stock on March 15, 1996. As a result of this stock split, pursuant to section 12.4 of the Indenture dated as of October 5, 1995 between the Company and Marine Midland Bank, as Trustee, the Conversion Price of the Debentures has been reduced from $33.00 per Share of Common Stock to $22.00 per Share of Common Stock, effective at the opening of business on March 26, 1996.

Principal Paying Agent
Midland Bank plc





## CONTRACTS & TENDERS

OFFICE FOR STANDARDS IN EDUCATION

### CONTRACTING AGENT TO ACT ON BEHALF OF THE OFFICE FOR STANDARDS IN EDUCATION (OFSTED)

From September 1996, nursery education settings* registered to offer voucher-funded education places will be inspected by the Office for Standards in Education (OFSTED).

OFSTED is planning to appoint a contracting agent to arrange for the inspection of approximately 16,000 nursery education settings within England by giving advance notice of inspection to the settings and by securing inspection contractors to carry out the inspections. The contracting agent may also have a role in the payment for inspection contracts and will need to provide management information and reports on a regular and ad hoc basis to OFSTED and other interested parties. Detailed records will need to be maintained for scrutiny.

The contract will run for two years with services commencing at various times; completion will be to tight timescales. Criteria for the award of this contract will include quality control procedures; proposals to manage all the services effectively to the required timescale; demonstration that the specification has been understood; quality and numbers of personnel proposed; track record; financial standing and value for money.

To qualify for invitation to tender, applicants will be asked to complete and return a business questionnaire by 29 April, 1996. The suitability of applicants to tender will be assessed on information from the completed questionnaire. Applicants not invited to tender will be notified.

To obtain a business questionnaire, please write or fax, giving your complete postal address, not later than 16 April, 1996, to Adam Godwin, Floor 1, Nursery Education Project Management Team, The Office for Standards in Education, Alexandra House, 29-33 Kingsway, London WC2B 6SE. Tel: 0171 421 6569 Fax: 0171 421 6708

Between 6 and 12 potential contractors will be invited to tender after consideration of the completed questionnaires. The contract will be awarded before the end of June 1996.

* Settings' refer to nursery educational provision for four-year-olds in a variety of schools, nurseries and playgroups. These include state nursery schools; state nursery, reception and infant classes; local authority day nurseries; private and voluntary schools, nurseries, playgroups and pre-schools.

THIS WEEK

# The saints go marching on – and on

DATELINE

**Salt Lake City:** a new mammoth tabernacle will serve as a showpiece gathering place for millions of Mormon pilgrims, writes **Christopher Parkes**

The curtain of isolationism, myth and antagonistic propaganda that obscures the Mormon church was drawn open an inch or two at the weekend. Revealed was the outline of a mammoth project to build a "dedicated house of worship" in Salt Lake City, Utah, with seats for more than 20,000 – and the glimmerings of a grander design to elevate Mormonism into the religious mainstream.

The construction will dwarf the 6,000-capacity, 129-year-old Mormon Tabernacle across the road in Salt Lake City. It will also seal the grip of the Church of Jesus Christ of Latter-day Saints on the architecture and tenor of life in the heart of the Utahn capital, where religious buildings and the likes of Zions Bank and the old Hotel Utah, freshly restored for church officials' use in a dazzle of gold leaf and costly masonry, already dominate.

The new building will be a showpiece gathering place for those of the church's 9m-plus adherents who, although there is no spiritual imperative – and despite the best efforts of the leadership to fuel their faith via satellite and cable – regularly flood the city on pilgrimage.

For every member inside the Tabernacle at the weekend there were at least another four outside, juggling uncountable infants, singing, chatting and then silent as they craned to catch the relayed words of the elderly men who carry God's message.

The occasion was the Mormon's 166th World General Conference, a twice-a-year ceremonial at which the likes of Gordon Hinckley, president and chief prophet, revelator and seer, and his cohorts of apostles, elders and bishops, shore up the defences of the "only true church" against creeping temptations of caffeine, tobacco, alcohol, adult films, free sex and Sunday shopping.

"Brothers and sisters, let's not shop on Sunday," urged Elder Earl Tingey. "It is best to stay on the safe side of things," added President Boyd Packer in a homily on the omnipresence of "unseen spiritual crocodiles".

Detectable all the while through this catechism of folksy, immaculate conservatism was the steel which pinions the church's faith and followers alike. James Faust, deputy to the 85-year-old Hinckley, warned coldly against dissent and free-thinkers. There was only one worldly channel for divine revelation and authority: the president.

"Stick with the brethren," he demanded, quoting a warning to would-be trouble-makers from a recanting rebel elder in the church's earliest days: "Prepare your backs for a good whipping... but if you take my advice, you will stand by the authorities."

Such is the staple fare of the patriarchal, authoritarian LDS church, which rejects ecumenism and all modernising tendencies seen in other Christian sects. But the world is pressing in on the Mormon havens on the flanks of the Wasatch mountains. Utah's economy is booming. The state's population grew 40,000 last year alone, thanks partly to an influx of LDS members driven "home" by recession. In turn, the winter Olympics in 2002 will bring thousands of visitors and three new international-scale hotels to Salt Lake City.

Although church and state are nominally separate, the mark of the LDS is all-pervasive. Dominance is not a word officially favoured, but the sum of the church's influence is a state with the healthiest, longest lived, hardest working and most fertile population in the US.

Abroad, the multilingual skills and ceaseless global roamings of Mormon missionaries (50,000 are active daily) are credited with contributing to economic success by creating networks which foster export trade when the young door-step preachers return home and go into business.

However, as the church has lately realised, globalising religion, as with business, is not a one-way street. Along with the benefits come alien value systems, drugs, rising crime and Sunday shopping. Salt Lake City, where roughly half the population is "gentile", as non-Mormons are known, is already known as Salt Angeles. The church sees a challenge and an opportunity in absorbing these shocks, and, in keeping with its heritage as a persecuted society tempered by adversity, turning them to its advantage.

The new meeting hall may serve as a potent symbol of the Mormon leadership's ambitions to sweep aside the tangle of obscurity and introspection which is hampering its efforts to garner souls in the latter days of the material world. The evolution of Salt Lake City into "a Mecca, or rather a Rome" for Mormons, as one local academic puts it, could play a key role in the church's plans for wider influence. Already using internal and external public relations efforts to establish its claim as a "mainstream" religion, its missionary zeal has been refreshed by independent conservative forecasts, based on its present membership and a baptism rate of 350,000 a year, that there could be 250m latter-day saints in the world by the middle of the next century.

"In the past we had a tendency to circle the wagons whenever we were approached," says one official spokesman. All of that may be about to change.

PEOPLE

# Maor rises above the macho

**Julian Ozanne** meets the self-effacing chief executive of Israel's Bank Leumi

Galia Maor: "It's strange to be a woman surrounded by a sea of men."

Galia Maor seems disarmingly unimpressed with her own achievements. As chief executive of Bank Leumi, Israel's second largest commercial bank, she recently joined an élite club of the most powerful businesswomen in the world.

Together with her husband, who is president of IBM Israel, Maor is an equal partner in one of Israel's most dynamic marriages. And, in the macho world of Israeli business, her rise to head one of the country's most powerful companies has triumphed over very long odds.

Yet in her modest Tel Aviv office, in the heart of Israel's financial district, the 52-year-old Maor downplays her stellar achievements in Israel's male-dominated banking business.

"It's always strange to be a woman surrounded by a sea of men," she said. She was dressed in a conservative dark blue business suit and sipped a diet cola. "But I can honestly say that I have enjoyed every opportunity, and throughout my career I never faced major male antagonism. I don't think I was ever promoted because – or in spite – of being a woman."

Maor is the ultimate gamekeeper turned poacher, having spent the bulk of her career as a central banker before moving into commercial banking. Her commitment to her profession is absolute, her *curriculum vitae* emphasising her total immersion in banking and listing her work on numerous committees studying the financial sector, as well as her article published on banking and banking supervision in *Banking Quarterly Review*.

The only exception to her devotion to banking appears to be her membership of the boards of governors of three universities. And, although she is widely seen as a role model, Maor says she refuses to play any part in women's groups. "I never speak on women's issues. If one is going to be successful and do a good job, one must devote all one's time to it," she says.

Throughout her 33-year career, her only concessions to the world outside banking appear to have been to her husband and three children, including a two-year leave of absence when her husband was posted to France. "Of course there is a real conflict between motherhood and a successful career, but now that is a conflict for men, too," she says. "For me the family has been very important, very supportive. We have shared everything."

That support seems to have been critical during the dark days of 1983 when Maor was the Bank of Israel supervisor of banks during the biggest banking crisis of the Jewish state. Her rise to supervisor of banks came after 19 years at the Bank of Israel, during which she worked in various capacities and studied at night to get her master's degree in business administration.

When she was promoted to supervisor of banks in October 1982, she seemed an ideal candidate. She had already overseen the consolidation of three failed banks in the late 1960s; she was well versed in banking supervision; and she was committed to a restructuring of Israel's antiquated banking laws. She began preparing new regulations to limit credit to single borrowers, groups and affiliated parties; improve accounting procedures; increase capital adequacy requirements; and establish a clear division of responsibility between management and boards of directors.

All these things were a clear challenge to Israel's bankers who, in the 1970s and 1980s, were, according to Maor, "the emperors of the economy". But before the new regulations could be put in place, the government was forced into a $7bn bail-out and takeover of the major commercial banks in the wake of a share collapse.

The Bejski commission of inquiry into Israel's banking crisis criticised Galia Maor for negligence, but stopped short of recommending her dismissal. "Throughout the crisis I was in the hot seat," she says. "As supervisor of banks, one key mission is to survive, and to survive in such a job is a real achievement, as any central banker in the world knows. It was a frightening time preparing to testify before the commission, because my whole career was ahead of me and it was extremely hard to prove my case."

She *did* survive, and although others at the Bank of Israel were forced to resign she was confirmed in her job and went on to carry out changes she had started.

Those changes, particularly credit limits, created a powerful knock-on effect at many companies that, by the 1980s, were bloated and heavily indebted to Israeli banks. The changes also caused a shake-out in the banking system and they seriously curbed the power of the country's bankers. "In the 1970s and early 1980s...the finance minister came to them to make macro-economic policy. Today they are business people who work hard and try to play their role professionally and decently," says Galia Maor.

She left the central bank in 1989 and joined Bank Leumi in 1991. She was appointed managing director and ceo last August and heads Bank Leumi at a time when Israeli banking faces continued reform, including completion of the privatisation of the major banks and new rules forcing banks to divest some of their non-financial assets.

She says her main goals are to improve the retail services of Bank Leumi, targeting banking to individual needs; continue to improve the performance of the bank's loss-making US operation; bring in younger, more dynamic management; and shore up the bank's image among the public.

"It's very rewarding, but also very challenging. But the key to success is the same here as at the Bank of Israel. You have to work hard and give up some parts of your life. Most importantly, you have to appreciate those who surround you and understand they are not playing against you but are playing for you."

NAMES IN THE NEWS

## Prosser keeps a cool head as Bass prepares to buy

Bass is the company most likely to pull off the next big takeover in London, and its chairman the person least likely to effuse about it, reports Roderick Oram in London.

Sir Ian Prosser, 52 years old and 27 years at the brewing, hotels and leisure group, is reserved, formal and speaks earnestly about his responsibilities to company, shareholders, customers and employees. He talks like an accountant, not with the bonhomie of a brewer or hotelier.

Colleagues say, however, that such a description misses other qualities. Prosser might be controlled and demanding but he is not an autocrat, they say. He is approachable and encouraging, an enthusiast for his work.

The probable bid target is Carlsberg-Tetley, the UK's third largest brewer and a joint venture between Allied Domecq and Carlsberg, the Danish brewer. But the City of London thinks there is also logic to Bass buying Ladbroke Group for its Hilton hotel chain and betting shops, or William Hill for its betting shops.

Clearly the time is right for Bass to buy. The group is humming nicely, having overcome initial City scepticism about two events in 1989, two years after Prosser became chief executive.

First he paid $2bn for the Holiday Inn hotel chain just before the international hotel industry stalled during the Gulf war. Moreover, Holiday Inn clearly needed a lot of work to weed out shoddy hotels and uncommitted franchisees.

Second, he had led the British brewing industry's negotiations with the government over the latter's attempts to lessen vertical integration between brewing and retailing through brewers' ownership of pubs.

Most in the industry were furious with the government for forcing them to dispose of thousands of pubs. Prosser never wavered. Bass is now well regarded as a hotelier and its reputation as a brewer is restored.

It is not the best pub owner in the country, but is learning to be more innovative.

Prosser will present his next deal to the City with conviction of logic and command of detail. But he will never regale even those he knows best with a gossipy account of how the deal was done.

## Dealmaker hits the jackpot

Fresh from completing one of the world's biggest IPOs (initial public offerings) last week, Claes Dahlbäck, chief executive of the Wallenberg industrial empire's holding company, Investor, was happy to admit that luck played its part in the SKr18bn ($2.5bn) issue of a 50 per cent stake in Swedish truck maker Scania, reports Hugh Carnegy in Stockholm. As a result of the IPO, Scania became the seventh largest company on the Stockholm bourse, and the first Swedish group to be listed on the New York stock exchange.

For weeks beforehand, Dahlbäck had been among those suggesting that Investor had missed a golden opportunity to do the issue last year, when the world's truck markets were booming. But surging interest in cyclical stocks meant Investor hit the jackpot after all. "In the end it was much better timing than last fall," said Dahlbäck.

The Scania issue was the latest in a long line of deals that Dahlbäck, 49, has handled since he took over as Investor chief executive in 1978. He was originally picked by Marcus Wallenberg, the legendary giant of Swedish industry, who died in 1982. Dahlbäck subsequently became one of the closest advisers to Peter Wallenberg, the present family chief, who called him "a pearl" in an interview last year.

Apart from Investor itself Dahlbäck is on the boards of ABB, Astra, Electrolux, Ericsson and Stora. He is also chairman of Vin & Sprit, the state-owned maker of Absolut vodka.

One of his key missions now is to reduce the heavy discount to asset value that Investor's shares have habitually traded at because it is mainly seen as a vehicle for defending Wallenberg interests. A likely next step is a stock exchange listing for Investor in New York.

## Whiteacre nurtures his new baby

Edward Whiteacre likes fishing, golf and most other aspects of the outdoor life. *Alan Cane writes in London.* The 6ft 5in Texan with the booming voice and forceful personality also likes masterminding the construction of mega-companies.

Last week, SBC Communications, formerly South Western Bell, of which he is chairman and chief executive, merged with Pacific Telesis in an historic merger: the first between two Baby Bells, the US regional telephone companies created after the breakup of AT&T in the early 1980s.

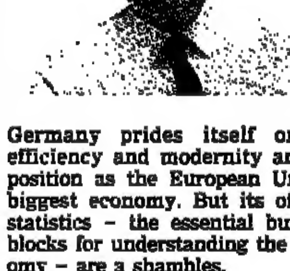
The deal, which will result in the second largest telecoms company in north America, was kept well under wraps. Whiteacre and his opposite number in Pacific Telesis, Philip Quigley, explored the idea last year but decided to do nothing until legislation liberating US telecoms was passed. Then the two met in an aircraft hangar on neutral territory: Phoenix, Arizona, about half way between SBC's Texas base and Pactel's Californian home territory. Just under a month later, the deal was consummated.

Whiteacre, 54, was born in the small town of Ennis, south of Dallas. He studied industrial engineering at Texas Tech and has been 33 years in the telephone industry, most of them working for SBC. He was appointed to the top job in 1990.

Colleagues credit him with two coups which reshaped the company before the PacTel merger. The first was an early move into wireless services, the second, its acquisition of a 10 per cent stake in Telmex, the Mexican state operator, which cost $1bn and is worth $3bn today.

For all his entrepreneurial acumen, Whiteacre is regarded as a no-nonsense, unpretentious man. His ambition over the next few months, friends say, will be to make sure the merger leaps the regulatory hurdles.





**Peter Norman** · Economics Notebook

# Germany's statistical shambles

**As upheavals caused by reunification continue to have effects, the essential building blocks for understanding the economy are unavailable or incomplete and no solution is even in sight**

Germany prides itself on its efficiency and modernity and its position as the European Union's biggest economy. But its official statistics – the essential building blocks for understanding the economy – are a shambles.

Take some recent examples. In February, the Bundesbank was unable to produce its usual winter analysis of gross domestic product trends because of the "limited information content of the official statistics". The monthly industrial production and order figures published by the Bonn economics ministry have been subject to wild fluctuations for more than a year. Since last May, the Bonn economics ministry's monthly report has contained two nearly blank pages where retail sales were once detailed. A spokeswoman explains that the figures are unavailable because of a switch to a new sampling method.

To some extent, Germany's statisticians are victims of circumstances beyond their control. Reunification in 1990 prompted upheavals that have yet to settle. According to Reiner Stäglin, a statistics expert at the German Institute for Economic Research (DIW) in Berlin, there are many areas where comparable statistics still do not exist between eastern and western Germany.

Conforming with European Union rules has caused other problems. The erratic industrial production and order figures reflect a huge EU-inspired reclassification exercise at the beginning of 1995 that has involved 6,000 specific types of goods. Only a fifth of the figures gathered and reported today are directly comparable with those reported 16 months ago.

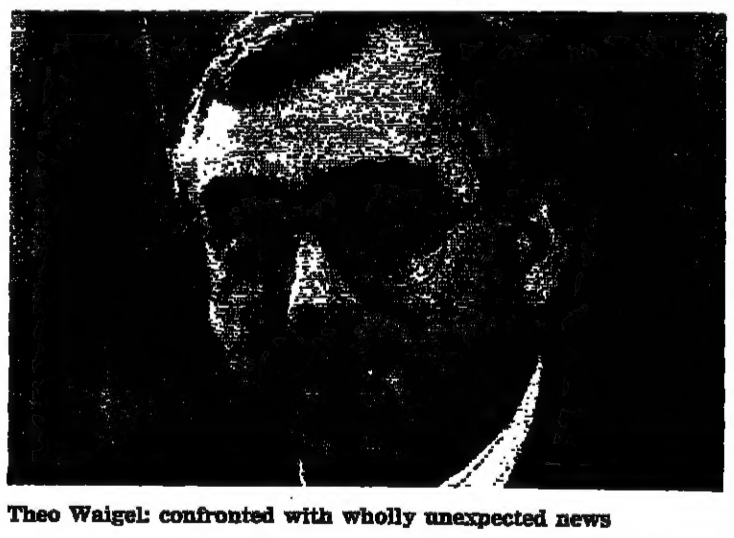
The problems with the industrial figures are being settled – gradually. Officials at the federal statistics office in Wiesbaden expect to iron out remaining inaccuracies by the middle of this year while year-on-year comparability will be restored by the end of the year.

But there are other gaps which will be less easily filled. The DIW's Reiner Stäglin says knowledge of developments in eastern Germany has been sharply reduced by a decision to produce national GDP figures from the beginning of last year rather than split the data between east and west.

The service sector, the engine of growth in most developed economies, remains a largely unknown quantity in Germany. There are no official figures measuring the telecommunications business, the software and information technology industries or the business activities of such professional groups as estate agents, tax advisers and notaries. The Bonn economics ministry has drawn up a draft bill to secure such information, but officials are unclear whether it will be law in the forseeable future.

At the start of 1996, Theo Waigel, the Bonn finance minister, was confronted with the wholly unexpected news that Germany's public sector deficit had amounted to 3.6 per cent of gross domestic product in 1995 and so exceeded the 3 per cent Maastricht Treaty ceiling.

Germany's failure to meet the Maastricht criteria gave rise to widespread doubt as to whether European economic and monetary union would start on schedule in 1999. The news would have been less surprising if Germany had monthly figures on the public sector borrowing requirement, such as those in the UK which detail income, expenditure and deficits.



Theo Waigel: confronted with wholly unexpected news

Cost is a key factor standing in the way of improved German statistics. With rising budget deficits at federal and state level, there is little political will to invest more in figures. Bonn is looking for cuts in official data even though the proportion of the federal budget spent on statistics fell to 0.05 per cent in 1995 from 0.077 per cent in 1970.

Germany's federal structure makes the gathering and evaluation of official data complicated: there are 16 state statistical offices involved in the process as well as the federal statistical office in Wiesbaden, the Bundesbank and various ministries in Bonn and the federal *länder*.

There are other self-inflicted wounds. A turf dispute – the Bundesbank versus the DIW and federal statistics office – may explain why seasonally adjusted figures are given so little prominence in comparison with other industrialised countries. Both camps have developed their own method of seasonal adjustment, with the result that the user of statistics is confused by similar but incompatible figures for seasonally adjusted unemployment or GDP. When Germany's unemployment figures for March are published tomorrow, the number grabbing the headlines will be the seasonally unadjusted figure.

Little wonder official statistics in Germany are relatively friendless. Rather than rely on the monthly production figures, the Bundesbank and financial market analysts turn to the monthly business opinion surveys of the Munich-based Ifo economic research institute for an insight into developments in the real economy. Yet the importance of official figures cannot be denied.

In Germany, where the public sector accounts for more than 50 per cent of all spending, defective official statistics could have serious budgetary implications. For example, inflation-proofed pensions are linked to the average increase in net wages and salaries. A 1 per cent error on the upside when computing this statistic would cost the state more than DM3bn a year, which is more than the federal government has spent on statistics in the past 10 years.

Without stronger political backing, Germany's statistical community has only limited scope for tackling the present malaise. Two small steps would help. One would be an agreement on a single method of seasonal adjustment. Another, which would be a boon to financial markets and other users, would be to produce a clear and accurate calendar of forthcoming data releases similar to that produced by the UK statistics office.

Above all, Germany has to learn that with ever closer European integration and globalisation, statistics are no longer a parochial issue. At present, Germany's official figures may be bearers of bad news such as record unemployment and declining economic activity. But they should not be allowed to be bad news in themselves.

صكذا من الاصل

صكتا من الاهل

## MANAGEMENT

One year after Glaxo's takeover of Wellcome, **Daniel Green** looks back at the trials and tribulations of the integration process

# The painful path from hostility to synergy

Things got heated, says Joe Blaker, group technical director, at Glaxo Wellcome. "There was shouting at video conferences that went on into the early hours of the morning. Sometimes I just had to tell people they were wrong."

Blaker is talking about how the company's management struggled to decide which plants should be closed after Glaxo's acquisition of its UK drugs sector rival, Wellcome.

The deal, completed a year ago, cost Glaxo £9.1bn. It was the UK's biggest hostile takeover and created the world's largest pharmaceuticals company, with annual turnover of more than £10bn.

From an investor's perspective, the takeover has been a success. The combined market capitalisation of Glaxo and Wellcome before the bid was £26bn. Today Glaxo's market value is £29bn and has been as high as £34bn in the past year.

But within the company, the upheaval was a shattering experience, particularly for Wellcome employees. The integration of the two companies has led to the announcement so far of 7,500 job cuts, more than 11 per cent of the combined workforce. Wellcome's research establishment in Beckenham, Kent, one of the UK's foremost centres for medical discovery, is to close.

A joint venture in non-prescription drugs was sold for $1bn (£666m) to its partner, Warner-Lambert. The vast US manufacturing plant at Greenville, North Carolina, is up for sale. All the directors of Wellcome, bar one, have left. The combined company has sold manufacturing and research sites in France, Italy and Spain.

At the outset Glaxo insisted that the new entity would be more merger than takeover, that there would be no triumph of victor over vanquished. Perhaps it should not be surprising that the reality turned out to be more complicated. The task was greater than most managers can ever expect to face: to bring together organisations with 62,000 employees in two separate research, manufacturing, marketing and sales organisations, operating companies in 70 countries and sales in 120.

The merger planning began even before the bid on January 23, 1995. Devised with the help of Boston Consulting Group, it involved a cascade of decision making: each layer of management made proposals about which subordinates were to go or stay and their areas of responsibility.

Since Glaxo in particular had a decentralised structure, a mosaic of task forces put forward a series of cost-cutting strategies according to local markets, laws and customs.

Members of a co-ordination team jetted between different countries to resolve problems. A steering committee led by Sir Richard Sykes, chief executive, waved through – or argued against – the proposals.

All divisions followed a centrally set timetable. April was for information gathering. May and June were devoted to preparing plans of action. On June 23, the executive committee heard presentations from the task forces. "That was the definitive decision-making event," says Jeremy Strachan, Glaxo Wellcome's head of legal affairs. The period since has been dedicated to implementing those proposals that were accepted. One challenge has been to reconcile profound differences between the two companies, both structural and cultural.

"Wellcome was more of an academic culture and Glaxo more of a commercial, business-driven culture," says Robert Ingram, Glaxo Wellcome's US head.

"There was a feeling in the Wellcome organisation that this was a company that took care of its people. More so, being candid, than there had been in Glaxo."

"Everything was different between the two companies," says Jean-Pierre Mangeot, chairman of Glaxo Wellcome France. "From finance to information technology, the structure of sales reps and the legal side."

Corporate culture in this case means more than feeling or atmosphere; the differences were reflected in widely different organisational structures, attitudes and lines of command.

"There was a strong sense of research for research's sake at Wellcome. Its origins in the charitable Wellcome Trust showed," says Strachan.

Less diplomatic Glaxo staff saw Wellcome as an over-centralised organisation with employees who were unrealistic in their expectations for the business's financial success. Academia-like penny-pinching had saddled Wellcome with out-of-date information technology.

Wellcome staff, in contrast, saw Glaxo as overly-commercial mercenaries assaulting their worthy enterprise and driven by cash. This showed, they argued, in its enthusiasm for the latest high-tech research gadgetry while refusing to study tropical diseases where sufferers could not afford western prices.

To try to combat such sentiments, management declared that both old companies were history and decreed that a new company was to be built in its place.

In some areas, the means to that end was straightforward. In research and development, for example, projects from both entities were put in a single pot. Rival evaluation teams, each with members from the old companies, assessed every project for likely success and commercial potential.

The results overlapped closely and those projects with least promise were scrapped. Researchers who got the go-ahead could stay with the new company knowing they had its backing.

The equivalent sequence of events in Blaker's manufacturing division was less genteel. His sector is vast, employing 20,000 around the world. No more than a score of different products account for most of

**Glaxo Wellcome: before and after**


Joe Blaker, group technical director


Robert Ingram, president and chief executive of Glaxo Wellcome Inc


Jeremy Strachan, legal and corporate affairs director

| | Before | After |
|---|---|---|
| Employees | 61,500 | 55,000 |
| R&D spending | £1.2bn | £1.2bn |
| R&D sites | 9 | 8 |
| Production (primary sites)* | 4 | 3 |
| Production (secondary sites)** | 45 | 38 |

* Manufacture of the drug's active ingredient
** Manufacture of pills, liquids and packaging

Glaxo Wellcome's sales, yet national regulations mean there are 11,000 product licences covering such variables as packaging, insert information and dosages.

The production structure at Glaxo Wellcome, and in almost every other large pharmaceuticals company, is to bulk-manufacture active ingredients at a handful of primary sites. Production of pills and capsules, as well as packaging, is done at many more secondary plants, usually in the market in which the products are sold.

Consequently, after the takeover, the new company had two secondary manufacturing sites in each significant market, with primary manufacturing duplicated in the UK and US.

Blaker's response was to demand from managers at each site a rationale for their existence. "They were asked to demonstrate why they should not change or close," says Blaker. However, the result was not as black and white as the method might imply. There were compromises, for example at Sophia Antipolis in the south of France. The plant was sold to management on the understanding that Glaxo Wellcome would use it as a supplier.

Blaker's biggest decision was over which of Wellcome's two main manufacturing sites – at Greenville in the US and at Dartford, east of London – would survive. It did not take him long to see problems at the US operation. "The Americans were too headstrong, got their numbers wrong and built their plants too big," he says.

Greenville had to go, with the result that savings in manufacturing were higher than anticipated at the start of the integration process.

By country, there was wide variation in the execution of the merger. The actions taken in the US were perhaps the most drastic. "The infrastructures for both companies had been built up over many years and they were just ripped apart. We're trying to build a new one – simple things like computers and phones, making travel arrangements, hotel arrangements," says Robert Bell, head of research at Glaxo Wellcome in the US.

Under US law, severance terms had to be offered to all employees of the combined company there. "Frankly, the take on those was quite high," says Ingram. "Some people took early retirement who we wish hadn't."

The phenomenon was noticed by rivals. "I have never seen so many good CVs land on my desk," says the chief executive of one pharmaceuticals company.

Employees in other countries seemed to fare better. "Wellcome in the UK was a very generous employer," says Strachan. "Sometimes significantly more generous than Glaxo." Some salaries were lower at Wellcome, but the pension plan was "the best in the country," says Strachan. "It was more generous with holidays, severance terms and health schemes."

The solution was expensive but unavoidable, given that the Glaxo management was trying not to give the impression it was steamrollering Wellcome. The scheme offered allowed employees from both companies to choose either Wellcome's or Glaxo's redundancy terms.

In Germany, management wanted to avoid the bad publicity that might have arisen from cavalier treatment of staff by a foreign-owned business.

"The package we offered was so good that when we presented it, the head of the works council proposed a round of applause for us," says Ralph Diehl, managing director of Glaxo Wellcome in Germany.

In France, the company established an organisation called *Competence Plus*, comprising employees who had been made redundant. They were guaranteed up to 15 months on full salary and given training courses on everything from "networking" to new skills.

They were also the first to be interviewed for any vacancies that arose within the new group during that period. Employees hired by other companies for trial periods had their salaries paid by Glaxo Wellcome.

For those who remained, there were improvements too. Glaxo staff worked a 39-hour week, whereas Wellcome did 37 hours. Now Glaxo Wellcome people work 37 hours. "We were concerned not to make mistakes in the social sphere," says Mangeot.

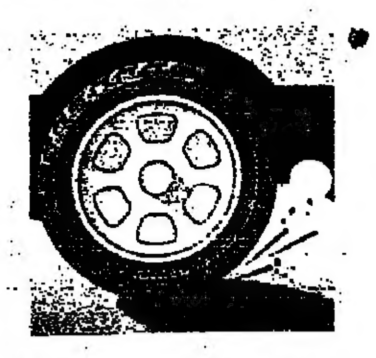
The issue has been sensitive for Glaxo, not only because of the political environment in Europe and the social chapter of the Maastricht treaty. Glaxo had had a chequered relationship with the French government, previously having been deadlocked with government negotiators over the price of its migraine treatment, Imigrane.

Partly as a consequence of such difficulties, Glaxo's French operation was only slightly bigger than Wellcome France, which did particularly good business there. Thus it made sense for Wellcome people to take the lead in the combined company. "That came as a shock to many Glaxo employees here," says Mangeot.

France, however, was an exception in the integration of the two companies, because Wellcome people came out on top. The practicalities of running the worldwide merger made it all but inevitable that Glaxo would be the senior partner. Not only was it the victor in the bid battle but it was also three times Wellcome's size.

Even if Glaxo staff were supposedly no securer in their jobs than those at Wellcome, sheer weight of numbers was bound to tilt the balance in their favour.

"It has been a tumultuous year. I don't think any of us would like to go through it again," says Robert Bell. "We're building a culture that in two years' time will lead people to say that this is a great place to work. But it would be false to say that we're there right now."



## FAST TRACK

### GMV

**Juan José Martinez-Garcia has brought the front edge technology of the European Space Operation Centre near Frankfurt to the police department of a dormitory town outside Madrid. A former senior mathematician at the centre, his principle is that if an object can be tracked in the upper atmosphere, everything that moves at ground level can also be monitored.**

**Now a professor of flight dynamics at Madrid university's school of aeronautical engineering, Martinez-Garcia has applied the lessons he learnt at the European Space Agency to GMV, a firm which he created in 1984 with Pta500,000 (£2,645) and five of his graduate students.**

**"I became convinced that there were specific areas where investment consisted of putting brain power together, not cash," he says. "Spain has a lot of mathematical and engineering brain power." One of his firm's key assets is the competence it has acquired in the development and application of Global Positioning System (GPS) technology.**

**GMV reported a turnover of Pta1.3bn last year and employs some 80 highly qualified engineers. Headquartered at a greenfield site that lies half an hour's drive from Madrid, GMV uses the adjoining new town, Tres Cantos, as a showcase for some of its products.**

**Martinez-Garcia has supplied GPS equipment, developed by a unit called GMV Systems, to the town's police patrol cars and ambulances. The equipment permits real-time monitoring of the exact location of the vehicles and guides them along the fastest route to wherever they are needed.**

**The firm's core business is in space flight dynamics and satellite guidance and navigation systems. Martinez-Garcia says GMV is "certainly the leader in Spain and possibly in Europe" in GPS research and application; his long association with the European Space Agency ensures GMV's ability to compete as a specialist supplier to the ESA at acceptable prices.**

**GMV Systems was created to "spread the risk" of the niche activity by bringing the firm's mission analysis dexterity down to the mundane level of recognisable everyday life. Martinez-Garcia, who has grafted entrepreneurial expertise onto his scientific skills, talks about "a huge, incipient market".**

**Recently he sold a GPS application to Seur, a parcel delivery service, which uses it to monitor its vans' movements. He also has a GPS product line designed for buses that, after factoring in traffic jams and other variables, will inform waiting passengers, via panels set up at bus stops, when their bus will arrive.**

**Martinez-Garcia, GMV's owner and chief executive, is determined to remain independent and believes the firm's profits are sufficient to finance an acceptable pace of growth. In addition to its space sector profits, the firm has tapped a steady income source by developing "firewall" software protecting Internet systems.**

**He expects GMV to grow by 20 per cent a year and to have doubled its business over the next five years. "That's a realistic estimate for us – although the sector will grow much faster. There is a real explosion in the GPS business."**

**Tom Burns**

# The princely approach to leadership

**Lucy Kellaway**

Prince Philip is not necessarily one's favourite royal. An overbearing father to his sons, who makes unfortunate remarks about ethnic minorities, and who is a fanatical lover of outdoor pursuits: there is little to recommend him.

Yet at the age of 74 he seems to be coming into his own, displaying considerable promise in a new career as a management guru. I have just got hold of what I believe to be his first published writings on management. He has composed the preface to a new book from the Institute of Management called *Leaders on Leadership*, yet another collection of writings by (quite) famous people telling us how wonderful they are.

The contribution from HRH is limited to a page and a half in which he says that there is no one thing that constitutes good leadership. Leading, he astutely observes, may amount to more than saying "Come on lads, follow me". For instance, it could mean gaining consensus on the board. Leading will be different in different lines of business: a politician and the head of a voluntary organisation may require different skills. However, he identifies several traits common to most leaders: initiative, original thinking, problem solving and good judgment. "But I suspect one vital factor is the indefinable quality of character that creates confidence and motivates and inspires others to follow or to agree," he writes.

You could say that all this is pretty obvious. But it has the advantage of being brief and clear, in marked contrast to much of the academic literature on the subject. Whole books have been written on leadership that make such a meal of the subject that you feel it must be highly complex, instead of quite straightforward as Prince Philip has correctly spotted.

I would very much like to hear what he thinks about other management subjects such as teamwork, change management or benchmarking. I expect his views on these matters could be written on the back of a postcard – which would make them as attractive to readers as they would be unattractive to publishers of management books.

---

This time last year we were living in a permanent state of deep shock. Hardly a day went by without the revelation that a chief executive had received yet another enormous, undeserved, corrupting, disgusting, outrageous, scandalous (etc, etc) pay rise. This year there has been practically nothing in the papers to celebrate the executive pay season.

Does this mean that a mixture of Cadbury, Greenbury and fear of getting the Cedric Brown treatment has forced everyone into line? Not a bit of it. Managerial pay rises are still comfortably above the rate of inflation, and company after company is still granting ever more generous rises to chief executives.

The truth of the matter is that we seem to have got fat-cat fatigue. So long as the company is doing relatively well, then anything goes. Thus the recent revelation that Sir Richard Sykes of Glaxo Wellcome got £2.4m (for 18 months' work) raised few eyebrows. The company obscurely explained that in order to comply with Greenbury it was paying its directors an extra £1m relating to the ending of an old performance scheme. So that's all right then. No story.

---

Should chief executives be allowed to sign their own expenses? Now that Peter Robinson, the sacked chief executive of the Woolwich, has been caught allegedly using company gardeners at his own home, there is talk of tightening up the system. But it is hard to see who else might be suitable for the task. Boards are overburdened as it is without fussing over the chief executive's taxi receipts, and underlings can hardly be expected to tell the boss that he should not eat at the Savoy Grill every day.

It would be nice if checks were unnecessary: anyone who is trusted to run a company could surely be trusted to manage their expenses. Yet experience suggests otherwise. For the few who get caught, there will be lots of others who do not.

One of the problems with expenses is that they are a grey area. Something that is permitted by one company can be a sacking offence at another. (Mr Robinson was fired for allegedly using company money to do up his home, whereas SmithKline Beecham willingly gave Jan Leschly £833,000 in expenses to move house.)

A more effective way of tightening the system would be for the company – which means the chief executive – to issue a clear statement of which expenses are admissible. That would make him more likely to live by the rules and others to notice if he did not.

The present muddy system does have some advantages however. It makes it easier for fellow directors to get rid of chief executives they do not like. All they need do is track down a few instances when he has used the company car to pick up his daughter from the airport, wait for him to go on holiday, and tell him to clear his desk when he returns.



هكذا من الاصل

BUSINESS EDUCATION

**Della Bradshaw** investigates an executive course where students have their minds set on travel

# More work and more play

Thirty-three students lounged in the lecture room in Lancaster, in the north-west of England. Ten, or more, wore the white baseball caps emblazoned with the Lufthansa logo which had been distributed by participants from the German company.

In the middle of one presentation a student from Matsushita was unceremoniously summoned to tinker with the seemingly temperamental Panasonic video recorder, amid friendly cat-calls from his peers.

Just a typical executive education course, you might think. But while the camaraderie may be typical, the underlying philosophy of this course, the International Masters Programme in Management (IMPM), is profoundly different.

Masterminded by Canadian veteran management thinker – and acknowledged guru – Henry Mintzberg, the course is intended to bridge the gap between traditional executive master of business administration (MBA) courses, which often indulge in theory at the expense of management practice, and in-house courses, which lack depth and perspective.

First, it puts particular emphasis on minimising the workload for the students, most of them aged between 35 and 45 and already playing significant managerial roles in their companies. "These are busy people, who become even busier when they are doing the course. So we have to use their work, not add to it," explains Mintzberg.

To add weight to his point he tells the tale of one course student who applied to a very well-known business school to study on a modular course. The overworked manager received 7kg of books by return of post.

Second, the taught element of Mintzberg's course comprises five modules of two or three weeks – each on a different campus. The first course was in Lancaster, the others will be in Canada (McGill University), France (Insead in Fontainebleau), India (Indian Institute of Management in Bangalore) and Japan (Hitotsubashi University in Tokyo).

Students can then complete a thesis, related to their day-to-day work, to get a masters degree from either McGill University, Mintzberg's home campus, or Lancaster. About 80 per cent of the students on this first course will go for the masters.

The course uses tutorials – a peculiarly British teaching method – to help weld the 12 weeks of coursework into a cohesive 16-month programme. Once during each residential part of the programme, and once between each taught element, the individuals peel off into company groups for discussion with a tutor.

Matsushita and Fujitsu, the two Japanese companies, form one tutorial group; BT and Telnor, the Norwegian telephone company which has a joint venture with BT in Sweden, a second, the Indian companies a further group.


While other courses home in on financial planning, marketing or information technology, the IMPM focuses on what Mintzberg calls "mindsets" – the reflective mindset, the worldly mindset and the catalytic mindset, for example.

"I don't think anyone's done two weeks on reflection before," he says, a comment that would lay open to ridicule any academic of lesser status.

Unusually, IMPM is run collaborately by the five institutions involved. This means none of them "own" the programme, so that each school and each academic can express their views in their own style, says Jonathan Gosling, senior teaching fellow at Lancaster.

The IMPM is marketed to individual companies – Alcan, Bobardier, Royal Bank of Canada and Kurlon, in India, are just a few – who then send a handful of students on the programme.

The course content demands that companies are fully supportive. While the students were in the UK, for example, they visited BT to assess the culture of the company and present their results as part of the programme. Similar expeditions are planned in each of the other four countries.

Comments from students indicate that the IMPM still draws on some of the best elements of more traditional courses. "The most valuable thing is the privilege of being in this group of people," says Jane McCroary of Lufthansa. "I've learnt as much at the dinner table as I have from the academics."

Other students bring a different perspective. Abbas Gullet is head of a sub-delegation of the Red Cross in Tanzania, where he runs a camp of 700,000 refugees. His daily work has less to do with accounting than ensuring the smooth running of schools and hospitals and guaranteeing the supply of fresh water.

Gullet argues that the International Red Cross, headquartered in Geneva, needs proper management as much as any other organisation. However, he acknowledges that his particular contribution to the course has been "the multicultural element."

## NEWS FROM CAMPUS

### Harvard students will sit GMAT examination

Students applying to study at Harvard Business School from September 1997 will have to take the Graduate Management Admissions test (GMAT).

The decision by Harvard to introduce the test after 11 years is due to changes in GMAT, in particular the introduction of tests to evaluate writing skills, says the school. Applicants will still have to submit essays and recommendations and, in many cases, be interviewed.

*Harvard: US, 617 495 6226*

### African high-flyers get free education

Young South African managers are being offered the chance to win bursaries to study management techniques in the UK.

Ashridge Management College, in Berkhamsted, Hertfordshire, is providing 11 annual bursaries for students on its international management development programme. One bursary will pay for all the requirements of the course, the other 10 for tuition fees.

*Ashridge: UK, (0)1442 843491*

### Europeans' case by case approach

One of the long-standing North American traditions – the international case competition – is being adopted in Europe.

Iese, in Barcelona, is to hold the inaugural competition in April. Students from schools in the US, Canada, Mexico, the UK and the Netherlands will carry out a three-day case study, assessed by a panel of business people.

*Iese: Spain, 3 204 4000*

### Tall stories on and off the rugby pitch

Students from 25 business schools donned their rugby boots recently to converge on the Duke School in Durham, North Carolina for the International Business Schools Rugby Tournament.

The Darden school at the University of Virginia took the honours for the rugby. However rumour has it that the squads from London Business School, Thunderbird and Kellogg took the honours in the subsequent "networking" – drinking, singing and swapping tales of great play.

*Fuqua: US, 919 684 2823*



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Tel: 0171 351 5000 Fax: 0171 351 9396
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Contact: Deborah Savin
Henry Stewart Conference Studies
Tel: 0171 404 3040 Fax: 0171 404 2081
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*Contact The Strategic Planning Society Tel: 0171 636 7737 Fax: 0171 323 1692*
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Free and open to all. See this space next week or fax Caroline Leet on 0171 929 2422 for ticket.
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## Travel News • Roger Bray

### Violence prompts alert

Political violence in the Gulf state of Bahrain has prompted a new warning from the UK's Foreign Office. It advises travellers to steer clear of village areas, particularly after dark, observe local security precautions and "respect religious and social sensitivities". Recent incidents have included bombs in hotels and two arson attacks on restaurants outside the capital, Manama.

### Virgin's no-snow show

If business commitments have wiped out the ski season, compensation may be at hand. Virgin Atlantic has installed a skiing simulator in its already quirky Heathrow lounge. Using poles for balance, the "skier" stands on two pads which detect movement. As the level of difficulty increases, a screen shows the piste ahead, with hazards such as rocks, trees and blizzards. A sound system provides the swish of skies and a blower simulates the rush of mountain air.

The Heathrow machine is part of a re-vamp of the *Terminal Three Clubhouse* for Virgin's Upper Class customers. From next month executives dragged off the golf course for urgent business trips will be able to practice putting there, as well – on an indoor green.

### Peaceful airspace

France and Spain are out of step with moves to cut flight delays by allowing airliners easier access to military airspace. Military flying has been reduced since the break-up of the eastern European bloc, and restrictions are being eased. Thirty other members of the inter-governmental European Civil Aviation Conference will *start phasing in the changes* immediately, shortening journey times by enabling airlines to fly less tortuous routes. Paris and Madrid, however, need more time – for "technical and institutional reasons". Despite the stutter, aviation officials see the *agreement as a minor miracle.*

### Picture of planning

Headed for Madrid on business? Fancy abandoning the laptop for a peek at the Prado's spectacular Goya exhibition? Beware. Arrange timed tickets before you go. Queues for the exhibition have been stretching to three hours. The trick is to book in advance (341 537 6200) and *get your contacts in Madrid to* pick up tickets.

The exhibition runs until June 2. The gallery is closed on Mondays but is open until 9pm the rest of the week.

### Quelle heure est-il?

French *prime minister* Alain Juppé has flown a kite which will have timetable compilers around the world tearing their hair out. Maybe, he suggests, in an interview with newspaper La Croix, France should stay on Greenwich Mean Time plus one hour all year round. So Paris would be an hour ahead of London in winter – but there would be no time difference in summer – and the rest of western *Europe would* be an hour ahead of the French in summer – but not in winter.

Suggestions on a postcard, please, from those who think this is wrong. You should have plenty of time to work it out while you hang around for the flight you thought was *departing* an hour ago.

### De-stressing JFK

Buses linking terminals at New York's JFK airport are to be replaced by shuttle trains as part of a \$3bn (£1.96bn) programme aimed at making one of the world's most stressful airports a little more user-friendly. Construction is unlikely to start before 1999, by which time JFK will be *coping* with nearly 40m passengers a year, 25 per cent more than last year.

### Likely weather in the leading business centres

| | Tue | Wed | Thur | Fri | Sat |
|---|---|---|---|---|---|
| Tokyo | 15 | 17 | 14 | 11 | 15 |
| Hong Kong | 25 | 26 | 22 | 23 | 23 |
| London | 15 | 16 | 15 | 15 | 14 |
| Frankfurt | 16 | 17 | 18 | 18 | 15 |
| New York | 8 | 5 | 8 | 16 | 15 |
| L. Angeles | 20 | 22 | 24 | 25 | 25 |
| Milan | 17 | 18 | 19 | 18 | 17 |
| Paris | 15 | 17 | 17 | 17 | 17 |
| Zurich | 14 | 17 | 18 | 17 | 14 |

Information supplied by Meteo Consult of the Netherlands



# Your carriage awaits

## Improved rail services are wooing US passengers away from the airlines, says Victoria Griffith

When the "All Aboard!" call rang out on a recent Monday morning at Boston's South Station, a suited and briefcased Michael Lefferts rose from his chair.

Lefferts, a consultant, was on his way to an afternoon business meeting in New York, and had chosen Amtrak as his mode of transportation. "I like taking the train," he said. "I bring my laptop and get four uninterrupted hours to work. And I arrive in the centre of the city. If you've ever taxied in from La Guardia, you know what a pain that can be."

Few business travellers share Lefferts' sentiments. "Most Boston-to-New York executives would probably take a plane," says Clifford Black of Amtrak. "But that's going to change."

Amtrak is rolling out an ambitious campaign to lure business travellers from cars and jets on to the rail. Last January the group launched a new Executive Privileges rewards programme to compete with airlines' frequent flyer miles, and the company recently announced plans to run its first high-speed passenger trains in the US between Washington, DC, New York and Boston, starting in 1999.

Amtrak is spending \$1bn (£656.6m) on the project, which will shave an hour off travel time between Boston and New York, and up to 45 minutes off the New York-Washington, DC, leg. By shrinking the Boston-New York journey from four to three hours, Amtrak believes it can meet the "threshold" at which air starts to lose its edge.

"Most air travellers count on an hour at either end to get back and forth from the airport, check in, that sort of thing," says Black. "We'd come close to matching that."

Meantime, Amtrak hopes its new incentive programme for business travellers makes a more immediate difference. A total of two round-trips along one of the north-east routes now brings a 20 per cent discount at Clarion hotels. Four round-trips garner gift certificates at Manhattan department store Bloomingdale's, 30 minutes' free domestic calls on MCI, or a \$25 certificate for travel on Amtrak.

Five round-trips mean a discount on a Royal Caribbean cruise, a magazine subscription, or a free Amtrak ticket. If the programme works well on the north-east routes, the company plans to introduce it to other parts of the country.

While most business travellers shun the train, Amtrak has had noted success in attracting executives on to its Washington-New York route. The company estimates that 65 per cent of passengers on the three-hour Metroliner service between the two cities are business travellers, and travel agency Rosenbluth International says 90 per cent of its business clients prefer rail to air or car between Washington and New York.


The Metroliner, which is more expensive than the normal rail services, sports sleek cars, roomy reclining seats and special lounges for frequent users at railroad stations. The real pull for executives, however, is speed. "I use it because it's faster than an airplane, and taking a car to New York is unthinkable," says Fred Shaffer, chief financial officer at Rohm & Haas, a Philadelphia-based chemical and plastics group.

The success of the Metroliner makes Amtrak believe it can pull in large numbers of business travellers on the Boston-New York route once high-speed rail is in place. Amtrak also hopes for good business on a few other routes. It is pushing the overnight rail service from New York to Atlanta, for instance, as a good way for executives to travel. The trains leave Manhattan at 6.45pm, and arrive in Atlanta just before 8am the next day.

Later this year, Amtrak will introduce new, more comfortable sleeper cars on the route. The new cars will have bigger windows, private showers and toilets, and an expanded dining service.

Speed of transportation is obviously crucial to most business travellers. Up to a certain point, air travel is always faster than trains. Other problems have also played a role in limiting the attractiveness of rail travel to US business executives. Until now, few trains have been equipped with a full-service dining car, limiting travellers to hot dogs.

Train services were often delayed, and travellers reserving seats less than 10 days before departure were forced to visit the station or travel agent to collect their tickets. Amtrak says it is now addressing these complaints, and hopes the planned improvements help rail travel win a growing share of the business market, especially in the north-eastern US.

# Time to dwell

## Hugh Carnegy on a wish list for those who spend too much time at airports

Forget executive workplaces, telecoms links and expensive shops. What business travellers in Europe really want more of at airports are play spaces for children, personal video screens and, when they have finished with those, a chair that converts to a bed to get some rest.

While they wait for airports to provide these things, executive travellers' most frequent activities on the way to a flight are a visit to the duty-free shop and the lavatory.

That, at least, is the finding of a survey of the needs and wants of travellers using European airports carried out by Vilstrup Research for Scandinavian Service Partner, Europe's leading airport caterer, which is part of Compass Group of the UK.

SSP was particularly interested to find that not so many travelling executives unpack their laptops while waiting as might have been imagined. US travellers were the hardest-working nationality, but only 39 per cent always or often worked at airports. Just as many never did. Sixty-six per cent of Spaniards never worked in the departure lounge.

"The image of the busy travelling executive is a myth," says Lena Andersson Hofsberger, SSP's chief executive, with a smile, no doubt seeing the chance to lure more laid-back businesspeople into her hostelries as they wait for their connections.

Aside from the demand for more and better toilet facilities (especially by Germans), the features business travellers wanted most to see more of were children's entertainment and family facilities. Both these items were cited by more than 25 per cent of those surveyed, ahead of any other *demand.*

Hofsberger believes that when executives are travelling on business they want children taken out of their way, and when on leisure they want play facilities available for their own offspring.

Underlining the emphasis on relaxation, more than 20 per cent of executives surveyed wanted personal videos available in airport lounges and almost 20 per cent wanted chairs that convert to beds.

The survey covered more than 1,700 travellers of nine nationalities sampled at Copenhagen, Dublin, Paris Charles de Gaulle and Tenerife airports. More than 600 were business executives. The study examined what these people did – or wanted to do – in what the industry calls their "dwell time" – the time between entering an airport and time of departure.

The findings point to evidence of wasted time for companies paying for the journeys: the survey found that the average dwell time was 9[illegible] minutes, with 11 per cent of travellers spending more than three hours at an airport. Dwell time had risen 8 per cent in 1995 over 1994.

What travellers do with all that time varies considerably from nationality to nationality, according to the survey. Taken together, more than 60 per cent visit duty free shops, while 55 per cent nip to the loo. Swedes are the biggest duty-free shoppers, and the biggest consumers of beer and wine in airport bars, perhaps reflecting the punitive taxes on alcohol at home.

The French are the heaviest buyers of newspapers, magazines and books and the heaviest users of fast-food outlets. Some 20 per cent of the French said they would like to spend their dwell time with an attractive stranger – compared to less than 5 per cent of Germans. Germans are the least likely to lose their tickets, the British the most likely to.

Least surprising of all was the list of dislikes. Most unpopular are queues of all kinds and prices in shops and restaurants that are generally seen as too high. Interestingly, neither smokers nor non-smokers are satisfied at present with airports' attempts to delineate smoking from non-smoking areas. On average, the survey found, 25 per cent of all travellers get angry during dwell time.

# Tense visions of future imperfect

**Victoria Griffith** eavesdrops on writers at a conference about privacy and the Net

Tom, an overweight man in his forties, goes to the corner store to buy a few items. He places on the check-out counter a pack of chicken thighs, Ben & Jerry's ice-cream, savoury dip, and a few packs of Amstel beer. "That will be $165.47," says the woman at the register. Tom thinks there must be some mistake. "What are you talking about? This stuff doesn't come to more than $40." "Well, yes, but then there are the taxes." "Over $100 in taxes?" "Yes." She consults the receipt. "It says here that you are in a high-risk category for heart attacks. The fees will offset the cost of your future hospitalisation." "But this stuff's not even for me. It's for my wife's party." "Well, next time maybe you should send her to the store. It might be cheaper."

That dialogue was dreamed up by author Pat Cadigan for a panel discussion of science fiction writers predicting life under the Net. The futurists' panel was part of a recent Massachusetts Institute of Technology (MIT) conference on computers, freedom and privacy at which all the participants seemed to be promoting their own nightmare of cyberspace gone berserk.

New technologies often incite fear. In the 1950s, the advent of computers inspired science fiction writers to invent robots which controlled the world; later, rockets gave rise to stories about aliens and humans lost in space. The Net is already creating its share of phantoms, as evidenced by last year's film *The Net*, in which a computerised mafia robs the heroine of her identity and tracks her down by tracing her cyberspace connections.

Although many sense that the Net poses a threat, few agree exactly what that threat is. At one extreme, conference participants feared an electronic world that gives everyone, including hard-core criminals, nearly complete anonymity. At the other end of the spectrum there was dread of an Orwellian society in which the Net acts as the all-seeing Big Brother.

Over four days, champions of the information age clashed with guardians of privacy, while civil libertarians argued things out with those afraid of electronic pornographers, money launderers, drug dealers and political subversives.

Martha's Vineyard-based author Simson Garfinkel, for instance, came up with a few terrifying scenarios about Net crime for a discussion group with David Chaum, the founder of the electronic money group DigiCash. In one, a thief went on an electronic spending spree with stolen digital cash. In another, an elderly woman was electronically robbed of her life savings. In the third, the stability of the US economy was at stake.

Garfinkel described it like this: "My name is Agent Jenkins. I'm an investigator with the secret service, working on a counterfeiting case. And it's tough. Last year, my office got a priority call from an economist at Stanford. The economist was looking at something called the money supply and velocity and both were increasing a little too fast. They just didn't add up. The economist finally figured an organisation was printing its own electronic money – just like the US government does.

"This counterfeit currency looked just like the real thing, except it was a fraud. She even found some of it – a digital dollar that was signed and sealed by the US government's secret key, yet had a serial number that had never been issued. The money that was being made was on the Net. It was everywhere and nowhere. And it was encrypted, so that we wouldn't even know it if we found it. Last month, we estimate, the total fraud was up to $900,000 a month, and it is increasing still."

That scenario may seem bizarre, but the technological commentators at the conference insist that their terrifying visions are not remote. "If you think the story about Tom is far-fetched, I don't know where you've been for the last few years," said Cadigan.


Advocates of free speech claim that the Orwellian society is imminent. The desire for control, they say, is in danger of going too far. As evidence, they point to America's Communications Decency Act, passed as part of the telecommunications bill two months ago. The act bans offensive material from any Net or online site that can be accessed by a minor. Singapore, China, and Saudi Arabia are also trying to control what their citizens do on the infobahn. "Government is saying 'Trust me'," said science fiction writer Tom Maddox. "But it may not be a good idea to trust government."

Author Bruce Sterling mocked the US Congress for wanting to limit what he sees as an uncontrollable phenomenon. "The government wants to create electronic suburbanity," he said. "They want to make it predictable, and neat, and boring. Well, that's what the online services wanted to do, and that's why people are leaving for the unpredictability and disorganisation of the Net."

Those who fear cyberspace as a haven for criminals maintain that more control is needed. In the middle of the MIT conference, for instance, the news broke that an Argentine student had hacked into a Harvard University computer to gain access to sensitive US military and space agency files. And local newspapers are filled with stories about pornography and child abusers who stalk their victims on the Net. Information is a scary thing to many. Companies represented at the MIT conference talked anxiously about how to guard their secrets by means of cryptography, while futurists worried about how much information corporations already have about regular citizens.

"Say I ride a motorcycle," said Cadigan. "Some survey might notice that motorcycle riders have a higher tendency to be meat eaters. Soon, I'm getting Oscar Mayer advertisements [cold meat products] in my e-mail. Then a tobacco company may decide that, because I'm on Oscar Mayer's list, I'm a likely smoker. So I get on another database. People may soon be distilled down to a list of Web links. There's this lust for information, and that information may really be none of our business."

Sterling thinks futuristic horror stories unnecessary. The nightmare is here. "We're chasing these bogus phantoms like the menace of cryptography and the threat of pornography in cyberspace," he said. "But the real nightmare is the hysteria the Net is producing."

## Tim Jackson

# Not surfing, but stranded onshore

"Surfing the Net" is a misnomer. It's supposed to be a high-speed pastime of linking from one page of information on the World Wide Web to the next. But most Web users spend nine out of every 10 seconds simply waiting for material to appear – not so much surfing as sitting sadly on the beach, watching waves break over their toes.

Numerous solutions have been proposed: new telecoms infrastructure that can carry more data; new charging systems to allow priority traffic faster travel; and cable modems allowing Net data to flow at the breathtaking speeds of today's cable television. Yet instead of scaling back the size of the images they expect us to download, Web site owners continue to make their offerings more elaborate.

However, some people are starting to seek opportunities in this inconvenience. At least three companies now offer software packages that allow Web enthusiasts to order their PC to download their favourite sites while they sleep, so that the information can be accessed directly off their own hard disk drive without delay the next morning.

Most striking among these "offline services" is FreeLoader, which has launched a beta version of its software before a formal launch in June. The company's name reveals the plan: to "freeload" off what other Web businesses are doing, rather than to compete either with other people's content or with the delivery mechanism dominated by Netscape browsers.

The FreeLoader package is a file of 1.5 megabytes which can be downloaded off the company's Web site (*www.freeloader.com*) with a fast modem in 15 minutes. Installed in another three or four minutes, it insinuates itself on to Netscape by adding a toolbar to the bottom of the browser screen.

To put the package to work, you simply look down a list of Web sites on the FreeLoader home page, click a button marked "subscribe" for those that seem interesting, and then tell the program how often you want these sites downloaded and at what time. You also specify whether you want just a single page or layers of linked pages beneath it.

At first, I mistook the company for a me-too competitor to the PointCast Network, covered in this column last February. But there is a difference: FreeLoader does not operate a separate delivery mechanism. Instead, it makes a more simple pitch to site owners. Without paying, and without having to change their content, they can turn occasional surfers into regular subscribers, thus avoiding daily competition on the electronic newsstand. With FreeLoader, they can also deliver graphical content previously unacceptably slow to download. Among the names that have already signed up are ZDNet, HotWired, InfoSeek, Yahoo and Playboy.

Since the package will be free, the money will come from selling advertisements downloaded with users' chosen Web sites. FreeLoader's revenue model assumes that if each user looks at 10 pages a day, those "impressions" can be sold to advertisers for two cents apiece. With 200,000 users using the service 20 times a month, the company hopes to achieve $10m (£6.5m) in sales after a year. The idea was dreamed up last autumn by Mark Pincus, 30, a former venture capitalist, and Sunil Paul, 31, previously of America Online. It evolved from an early idea for a hardware product that would serve as a kind of VCR for a network PC. After putting in $50,000 each, the two men brought in two partners for $3m: a New York venture capital firm and Softbank, the Japanese owner of Ziff-Davis. FreeLoader has 23 staff now; its working capital should run to a payroll of 50 by the end of the year.

The name FreeLoader was chosen after the two men bought the use of the URL *freeloader.com* from an individual for $500. As a measure of the growing scarcity of "hot" Net domain names, Pincus cites another name they considered – *download.com* – which he says became the object of a bidding war between two industry giants, and allowed the bright spark who had registered it for $100 to sell it for $50,000.

The company is odd in one respect: it is based in Washington, DC, not in Silicon Valley. Pincus boasts that FreeLoader has just moved into charming offices in Georgetown, and talks disparagingly of Silicon Valley's "huge suburbs" where you cannot tell Net companies from hardware manufacturers.

It is tempting to believe that FreeLoader's opportunity window could be swift to close, if technology and Net reform increase downloading speeds from the Web. But Pincus believes that site owners' demand for bandwidth is like software companies' demand for processing power: it not only keeps increasing but it increases a little faster than capacity. A year from now, today's Web sites may download in five seconds, but by then, surfers will be drumming their fingers waiting for full-motion video clips.

A more worrying doubt is that FreeLoader turns the Web into a frozen, one-way medium, removing many of its possibilities for interactivity and forcing users to go back online for the full experience. This is harder to refute, but my own experience is that the vast majority of Web sites fail to make proper use of interactivity anyway. My guess is that the traditional one-way approach to Web site design will persist for many, many months to come. For the Net, that's long term.

# Secure software race begins

By Paul Taylor

Open Market, a two-year-old Massachusetts-based start-up company, has developed a specialised software package designed to facilitate secure "industrial strength" business over the Net.

The software, called OM-Transact, and a sister package called OM-Axcess, enables companies such as publishers, retailers and banks wishing to conduct business over the Net to offer secure payment, complete order management and online customer services.

Businesses consistently cite concerns about security as a limiting factor in their use of the Net.

As a result, secure transaction software is expected to be one of the fastest growing segments of the Net software market as businesses move from operating trial Web sites towards true electronic commerce.

The overall market for Internet software is expected to grow from about $244m (£161m) last year to about $2bn in 1997, according to Goldman Sachs, the Wall Street investment bank, and Open Market is hoping for a 10 per cent share of that.

Among its particular features, OM-Transact uses a system of codes that registered trading partners can use to authenticate Net transactions and creates real-time transaction records for merchants and online account statements for customers.

Among its US-based customers are Time Warner, First Union National Bank, Banc One, Hewlett Packard and Digital Equipment, which are using the software for secure electronic commerce and intra-Net applications.

Time Warner, the US media group, is initially using OM-Transact to sell content online from its Pathfinder Web site.

In Britain, Unipalm Pipex, the largest corporate Net access provider, has announced that it is installing the first OM-Transact system in Europe.

Richard Nuttall, director of electronic commerce at Unipalm Pipex, says: "The agreement with Open Market to manage an OM-Transact system delivers the final piece of the electronic commerce jigsaw. We now have the capability to deliver a complete electronic commerce solution to our customers."

Meanwhile, Hewlett Packard is implementing an international system using OM-Axcess that will allow customers access to critical business information on HP products and services. OM-Axcess allows HP to provide selected users with secure and exclusive access to that information.

## Cyber sightings

● The European Year of Lifelong Learning site (*www.cec.lu*) provides information about the year's activities through Europa, the European Commission's server. It has an excellent range of resources, including details of training, best practice case studies, nationally oriented links and a feedback section.

● Britain's Chartered Institute of Management Accountants has set up a home page (*www.cima.org.uk/cima*) aimed at letting members, students and customers communicate with each other more effectively. Not sure about the green newspaper background, though...

● The American Society for Information Science (*www.asis.org*) is the sort of good informative site you'd hope to see: lots of activity information, a good what's-new page, and details of upcoming events as well as articles and papers.

● For US investors, PRARS – the Public Register's annual report service – has put up a site (*www.prars.com*) which will allow you to order annual reports online. It has a toll-free number while it's under construction.

● Canoe, the Canadian Online Explorer (*www.canoe.ca*), has a range of information sources for world and local news, features and added value stuff.

● Fleet Bank's site (*www.fleet.com*) is well laid out and easy to get around with a user-friendly personal navigator section. While telling you about the bank's products, it is logically organised.

● First Book of the Month Club. Now, would you believe, the Potato of the Month site from New Penny Farm in Maine (*www.mainerec.com/newpen.html*).

● Bill Gates's Personal Wealth Clock (*www.webho.com/WealthClock*) is a way of reminding you of a statistic you probably don't need to know, brought to you by Philip Greenspun, author of the inspirational *Why Bill Gates is Richer Than You*.

● Whatever the reason for Gates's wealth, it's probably not because he uses Bonehead Finance (*http://ourworld.compuserve.com/homepages/Bonehead_Finance*) which has financial tips, a glossary of financial terms and references.

● Buoys will be buoys: there is now a Brent Spar Web site (*www.shellexpro.brentspar.com*) where you can keep up to date with the continuing debate over the controversial piece of ironmongery.

● Designer City (*www.designercity.com*) calls itself the ultimate fashion experience. In association with *Esquire* magazine, it allows virtual browsing, mailing list registers and has a fashion directory listing 6,000 stockists.

● If you're interested in collectibles, the gold and currency exchange is worth a browse (*http://mastermall.com/currency/gold/exchange*). It's searchable, with a good set of other financial links as well.

● Business Broker Web (*http://business-broker.com*) is a place for entrepreneurs and venture capitalists to list businesses for sale in the US and Canada.

*steve.mcgookin@ft.com*

Financial Times on the World Wide Web
www.ft.com
or
www.usa.ft.com
Updated daily

# Torquay fears turn of the screw

**Keith Wheatley** on a family football club at which lager barrels finance the mid-field

Innovative financing is the order of the day at the bottom of English soccer's Endsleigh Insurance League, which accounts for three professional divisions below the big-time clubs, like Newcastle and Manchester United, in the FA Carling Premiership.

Indeed, the boys at the bottom could teach the derivatives market a trick or two. For example, Riffi Haddaoui of Denmark made his debut for Torquay United thanks to a couple of barrels of free lager. Money is tight at Torquay, which is at the bottom of the Endsleigh third division and facing relegation into the abyss of non-league football.

Torquay's chairman and club owner, Mike Bateson, wanted the Danish player on loan until the end of the season, but wasn't too sure about how to find his wages. Eventually, he tempted Carlsberg into a non-cash sponsorship. Carlsberg gave United £1,000 worth of lager, which will be sold in the club's Boots & Laces social club to finance the young mid-fielder.

"It's frustrating, but we can't afford to buy the kind of player who'd make an instant difference," laments Bateson, who says he has put £325,000 into Torquay since last November.

This is the ultimate family club. When I asked the smiling young receptionist for Bateson, she dialled the boardroom and said into the telephone: "Dad, it's the chap from the FT." Miss Bateson turns out to be married to Torquay winger Richie Hancox, scorer of United's 39th minute equaliser against Hereford on March 30 (result: draw, attendance: 2,034).

Hancox came across from the left with a diving header to meet a pin-point free-kick from the other side of the pitch. It was almost the only entertaining move the home side produced in 90 minutes – and the first goal Torquay had scored in seven weeks.

My neighbours on the press bench broke off from a long, erudite and passionate discussion of the novels of Henry James to watch the action. "Hancox used to be a really good player every week, but playing for Torquay has done his head in," observed one, before returning to problems of characterisation in *The Turn of the Screw*.

Many points adrift at the bottom of the lowest division, and, with only a handful of games to go, staring virtual extinction in the face, an apathetic fear has seized the club. Torquay has been a member of the league since 1927, never higher than the old third division and quite often kicking around the fourth.

Paul Lewis

**Survival is the goal: from left, Riffi Haddaoui, manager Eddie May, and Paul Williams at the Torquay ground**

Walking to the ground in bright spring sunshine, with seagulls cawing overhead and palm trees in the gardens of whitewashed villas, it was easy to believe that professional soccer never quite belonged here anyway. On Saturday evening's BBC classified sports results, Torquay United always sounded an anachronism amongst the gritty Tranmeres and Workingtons.

Yet passion for the game exists on the English Riviera, as much as elsewhere. The day I was there, the Popular Side terrace was seething with discontent over the chairman's decision to displace home fans with Plymouth Argyll's more numerous followers for yesterday's local derby, which Plymouth won 2-0.

A petition – how civilised: at Leeds United they would have broken the boardroom windows – was circulating against Bateson's provocative decision, taken on safety grounds. A banner reading "Sold Out Again" surfaced occasionally in the crowd.

"With Bateson it's all financial," raged Dave Hoult, a supporter for more than 30 years. "He's tried to make Torquay into a business, but football isn't a business. You can't make money at it." When Hoult and his pals first visited Torquay in the 1960s they would get free admission and a pasty in return for washing the half-time teamugs.

"Taking players on free transfer and paying them with free beer . . . They're only available because they're bloody rubbish. How is it going to save us bringing them down here?" Hoult demanded. "If you pay the players peanuts you'll get chimps. All we've had for the last 30 years is rejects."

Needless to say, the view from the boardroom is rather different. "I've got 2,000 fans out there who claim they own the club, but when we tried a share issue they didn't want to know," said Bateson. His former company, Mod-Dec Windows, is Torquay's main sponsor. When he sold the business six years ago for nearly £5m, Bateson decided to invest in a small football club.

"It doesn't compare at all with any conventional business," he mused. "Those things we do control are as good as any other small company, but everything really important happens out on the pitch. It's highly frustrating trying to influence things out there."

If Torquay drops out of the Endsleigh league and into the Vauxhall Conference, it will lose at least £100,000 per season in league subsidies. And how many of the 2,000 regular fans will stay loyal? In turn, sponsorship income will fall once regular television coverage disappears.

Torquay's best hope of staying alive hangs on another team failing. Stevenage, currently top of the Vauxhall Conference and eligible for promotion to the Endsleigh league, has a ground that fails to meet national safety standards. If Stevenage declines the big time, Torquay lives to fight another day.

When the full-time scores from around Britain came over the loudspeakers, Torquay's fans paid far more attention to the score at Stevenage than to those of their third division rivals. They were faintly ashamed, like people who hope fate's fickle finger is pointed at their neighbour, not them.

In the dressing room it was just plain awful. Manager Eddie May was taking the paint off the walls. "The second half was a load of garbage," he said. "I'm sure the fans are disappointed because it's not the way to win games. I warned the players at half-time it would happen, and I've told them now that if they don't want to listen, fine. At the end of the season they'll go."

Things at Torquay United are starting to unravel.

# Britain's finest pose challenge for Chicago

**Colin Amery** finds 50 architects displaying their talents in the birthplace of the skyscraper

It has been described as "a *challenge to Chicago*" by the critic of the Chicago Tribune, and is the first exhibition of British architecture to be held in the Windy City. The Financial Times is the chief sponsor of the exhibition called Contemporary British Architecture at the Art Institute of Chicago until May 5, which has been produced by the Royal Academy. It is a benchmark show in that it contains the architectural fruits of the labours of the Royal Academy architects from 1991 to 1995. Some 50 architects – the cream of the British profession – are thus showing their wares in a city that is still the architectural centre of the US.

*Chicago is a city climbing* out of an architectural recession. It is the city of Frank Lloyd Wright, Daniel Burnham, Skidmore Owings and Merrill and Mies van der Rohe – a city where architecture is still part of everyday civic language. To be on the shores of the lake where the skyscraper was invented is always thrilling.

I do not think there is another architectural sight to beat the view from the air as you fly over the vast, flat prairie and see the fields of corn turn slowly into towers of buildings, with the grid pattern of the corn fields rapidly transformed into the grid of the city. That visual point was not missed by the designer of the exhibition, Simon Templeton, from the office of *Nicholas Grimshaw*. He has hung the works on a steel grid that lines the walls of the art institute's Kurokawa gallery.

The challenge to the city that invented modern architecture lies in the sheer range and breadth of the British talent represented. They are all there – the high-tech masters and the pasticheurs. Ove Arup's proposed design for an Olympic stadium in Manchester is shown in a dramatic model that might have produced a full-scale masterpiece of engineering.

In turn, there is nothing in Chicago like the work of Richard Rogers, whose unrealised tower for Tokyo, however, surely leans too heavily on Meccano to be taken seriously. Yet the work of Sir Norman Foster is a beam of light in a city where much recent architecture has tended towards unsatisfactory post-modern gimmickry. Recent towers on Michigan Avenue by Kohn Pedersen Fox must have Mies van der Rohe turning beneath his granite tomb in Chicago's Graceland cemetery.

In the land of the out-of-town shopping mall there is *nothing as good as the Sainsbury* store designed by Jeremy Dixon and Edward Jones at Plymouth. It is shown as a fine model – the romance of Plymouth's maritime past echoed in the arcade of sails marking the front of the store, making the supermarket an important landmark.

The Jeremy Dixon design for the bus station on the Piazzale Roma in Venice continues the Sainsbury-Plymouth tradition of making a mundane activity like parking into a geometric and ordered experience, while Glyndebourne's opera house and the new extension to the Houses of Parliament represent the work of Sir Michael Hopkins, an architect described as "the acceptable face of modernism" but in fact one who has shown that it is possible to apply eternal lessons to contemporary design.

The work of the late Sir James Stirling continues with his partner Michaël Wilford, the competition entry for the Los Angeles philharmonic hall showing how the firm breaks geometry apart in order to breathe new life into it. The competition was won by Frank Gehry, the American sculptor-architect, whose work is far more radical than anything seen in this show. Indeed, there is an element in the show which American critics described as "the nostalgia zone" – represented by Quinlan Terry's villas in Regent's Park, London, and by the farm buildings of Robert Adam.

In a city where a great new public library has been built in record time – the Harold Washington memorial library by Chicago architects Hammond Beeby and Babka – it is shameful *to see the* 20-year-old drawings of Colin St John Wilson's design for the British Library that is still being built at a snail's pace in London. The Chicago Tribune asked: "Will it resemble a *blockish factory or a sublime* machine for learning ?" Time will tell. The Harold Washington library, it should be said, has more than a touch of civic grandeur.

It is exciting to see the best of British architecture on display in this setting. But it prompts an important question about the status of architecture in the institute, which ought to have a wing devoted *to the history of architecture* in Chicago – and, by association, America.

The institute houses some wonderful fragments from the demolished heritage of the city but lacks a thorough survey of the great architects of its recent past. Whereas the British architects brought a freshness of vision to Chicago, it would have been wonderful to compare them with the best of Chicago's brilliant past – especially as the sources of so much contemporary architectural thinking are to be found there.

Incidentally, the best architectural bookshop in the world is in Chicago and should not be missed by visitors. The Prairie Avenue Bookshop is at 418, South Wabash Avenue, in huge new premises.

'Sheep and Cattle with Herdsmen by a Pool' by Thomas Gainsborough

# Two artists with a way with paper

Two exhibitions of works on paper – by the young modern painter Marlene Dumas and the 18th-century master Thomas Gainsborough – could hardly present a greater contrast. Yet for all their differences, of age, subject-matter and technique, the two artists also present a curious affinity. On the one hand Dumas glosses her rapid wash drawings of the figure with a fashionable conceptual rationale, while Gainsborough tricks out his imagined and ideal landscapes with all the conventional devices of atmosphere and association. In the end the work of each comes down to the quality of the mark laid down on the page, and the disciplined *judgment of hand and eye.*

The faces, heads and bodies of Marlene Dumas, now on show in the Tate, may carry a certain interest for the themes they represent – "The Lover", "The Magdalene", "Jesus Serene". But without their particular qualities of drawing and painting, they would be little more than *literal* illustration. *If* a message were the determining factor in a work of art, we would be hard put to find a bad Crucifixion or Annunciation. It is a truth conceptual apologists too readily forget.

So with the landscape drawings of Thomas Gainsborough at the Courtauld Institute, where the point is reinforced by comparative examples from his peers, followers and lesser imitators, along with some downright misattributions, all from the Courtauld's own collections. For it is not those picturesque cottages and clumps of trees, those slowly winding lowing herds that matter, but only that delicate, feathery touch by which they are realised. "No man ever possessed methods so various in producing effect," wrote *William Jackson,* "and all excellent. The subject, which is scarce enough for a picture, is sufficient for a drawing, and the hasty, loose handling ... is rich in a transparent wash of bistre and indian ink."

The vogue for Gainsborough's drawings in his lifetime and following his death was a remarkable episode in British art. It was *not his* studies from life that were so popular so much as the landscape idylls. What made them irresistible was their combination of apparent eccentricity of manner, their loose, mopped and scribbled effects, with the bucolic charm of their imagery. They were *all too easy to imitate,* which the Courtauld here wryly acknowledges.

★

Marlene Dumas, now in her early forties, is by origin South African but completed her studies in the Netherlands, where she has lived ever since. Her essential subject is the human figure and the sense of an immediate presence, registering moods and attitudes from tenderness to violence, innocence to guilt.

Sex *inevitably, and sometimes* explicitly, comes into it, and indeed Dumas feels she must be sensually attracted to her subject of the moment. Here she takes the particular themes of "The Absent Lover", "The Perfect Lover", and "The Daughter", treating them in extended series of heads and figures, *such as the "Jesus Serene"* group, which is intended to convey an intense but yet entirely spiritual sensuality, or the more obviously sexual "Magdalena".

She works loosely and freely from photographs in newspapers and magazines, her approach romantic and expressionist. *The only pity is* an insistent conventional need to justify the work in terms other than painterly. "Dumas addresses issues of enduring interest: race, sexuality, violence and tenderness ... Her works have been described as centring on people at the intersection between experiences, feelings, ideas and their connections with the world around them."

She gets into the act herself. "I experience human beings as very *untrustworthy creatures,* because, even if not consciously or deliberately, they do much harm to one another." How very true. ""We can't know what is going to happen at first glance, but the question is not so much is the other person good or bad, but who are we?" Hmmm. "When I am attracted to *someone specially when it is an* erotic attraction, I am struck by the complexity of my emotions. It is a mixture of beauty, vulnerability, love, fear and disgust, almost simultaneously; but how to paint or draw that!" Oh dear.

But to her credit, her common-sense *then gets the better of her:* "... the medium, the colours, textures, gestural marks and the brushstrokes must have freedom too, embracing chance and surprise ... My paintings are also about material qualities, about the pure joy of making a work of art." Nowhere is this more obvious than in that set of large female figures, the "Magdalena", ambiguously fecund and seductive. Stated with so swift and confident an authority, *they are the best things in the* show.

**William Packer**

Marlene Dumas: works on paper. Tate Gallery, London SW1, until June 30. Thomas Gainsborough: drawings; Courtauld Galllery, London WC2, *until May 26.*

Opera in Turin/**Andrew Clark**

# Full house for 'Il corsaro'

It is tempting to say the Royal Opera has lost a good deal in jettisoning its plan to co-produce *Il corsaro* with Turin. Verdi's Byron opera has just been performed to considerable acclaim at Turin's Teatro Regio, and was to have been re-staged at Covent Garden as part of the 1996 Verdi festival. Lack of money has forced the Royal Opera to limit itself to two concert performances in June.

So London audiences have lost the chance to make a proper assessment of one of Verdi's least known works. We can listen to the music on record or in concert, but Verdi's theatrical instinct was such that his operas meet their true test only *when they reach the stage.* For about 100 years critics dismissed *Il corsaro* without having a proper chance to judge it. The tide turned in the 1960s, since when a handful of robustly sung productions has encouraged critical opinion to swing the other way.

The Turin production, conducted by Evelino Pidò and staged by Mauro Avogadro, offered an antidote to both extremes. It underlined that while *Il corsaro* may not be a great opera, there are enough traces of Verdian genius to justify occasional performance. It is concise and *melodious in a workmanlike* manner, and it allows us to fill in some important gaps in the extraordinary development Verdi underwent between *Nabucco* (1842) and *Rigoletto* (1851).

Verdi showed less interest in *Il corsaro* than other operas of his galley years: he wrote it to rid himself *of an obligation to one of Ricordi's* rival publishers, and did not attend the premiere at Trieste in 1848. But we know equally well that when he started the project, he was seized by the dramatic possibilities of Byron's poem. Here is a swashbuckling corsair who leaves his beloved to attack the Turks, is captured and imprisoned, finds an unlikely ally in the favourite member of the *Pasha's harem, and returns home to* find his beloved has poisoned herself. Verdi captures the corsair's vitality and romantic introspection, and there are some rousing duets and caballetas.

Those were the moments which came across most effectively in Turin. José Cura's Corrado cut a *suitably virile figure,* his bronzed timbre sounding glorious in the tenor cantilena at the end of the Act 3 prison duet. Every performance finds this singer gaining in confidence and polish: all he needs is a stronger director to develop his stage personality. He was well partnered by Maria Dragoni, whose glittering soprano was a match for Gulnara's demanding coloratura. *Roberto Frontali made a hectoring* Pasha, Silvia Ranalli a pale Medora.

Thanks to Pidò's control of the opera's swinging moods, the music sounded both subtle and brazenly confident. *It* would have made an even bigger impact if the momentum had not been undermined by inexplicably long pauses between scenes. Carmelo Giammello's decor – a pier-end with silhouetted sailing ship for the opening and closing scenes, a forest glade for the harem, a handful of column stumps for the Pasha's lair – was of the minimalist variety, its chief attraction being the sophisticated colouring of the illuminated backdrops. Avogadro's *staging was far too passive for* north European eyes, and would have looked risible at Covent Garden.

So perhaps London has not lost so much after all. The Royal Opera could probably have staged a "bare essentials" *Corsaro,* with a good deal more dramatic authenticity, for *half the price. Either it did not like* the look of Turin's production plans, or it belatedly decided that trying to fill the house for seven performances with an unknown Verdi was too great a risk in the current economic climate. No such risk exists in Italy. There was not a spare seat at the Sunday matinee I attended in Turin, and the audience lapped it up as if it had been *Nabucco.*

Theatre/**Sarah Hemming**

# The Thickness of Skin

The Royal Court's little Theatre Upstairs is certainly on a roll. Scarcely has Martin McDonagh's wonderful *The Beauty Queen of Leenane* vacated the space, when in moves Clare McIntyre's fine new play, *The Thickness of Skin.* Perhaps not such a cracker as the Irish play, this is still a beautifully written, humane piece about a group of people struggling with what happens when charity begins at home.

McIntyre keeps her focus tight *and her scenes sharp and to* the point. She homes in on one well-heeled, middle-class family: the shrewish Roanna (Elizabeth Garvie), her pinstripe-suited husband Michael (Rupert Frazer), their teenage son Jonathan (Toby Ross-Bryant) and Michael's sister Laura.

Roanna and Michael discover that care in the community has arrived on their doorstep in the shape of Imogen, their next-door neighbour, who has enough marbles to keep her out of hospital, but not enough *to keep her out of their house,* where she rabbits on about her "voices" and and shows uncomfortable interest in young Jonathan.

Laura, meanwhile, actively seeks out her problem. A teacher, nicely spoken and well brought-up, she volunteers at a centre for the homeless and her life turns a sharp corner when – against regulations – she takes in one of the homeless men. She soon discovers that good intentions are not enough to clear up other people's mess.

What *is* so appealing about the play is McIntyre's honesty. Her characters are far from perfect: Laura may be well-meaning, but she is also unintentionally patronising; Eddie, her unconventional lodger (Mark Strong), has charm and self-respect, but a huge chip on his shoulder about being told what to do by women. McIntyre raises *prickly questions about the motives* for doing good, the nature of responsibility and the value of help, without ever abandoning her admiration for those who do at least try to do something.

Dialogue is acute and funny: McIntyre has a wonderful ear for embarrassed English attempts at *communication. Hettie Macdonald's* beautifully clear production wrings out every drop of humour from the script and is performed by a strong cast. Amelia Bullmore's Laura, in particular, is so painfully nice you feel yourself blushing on her behalf as she tries to express herself; while Maggie McCarthy's babbling Imogen is toe-curlingly good.

The play has flaws: the character of Michael, the authoritarian pater familias, is a stereotype, mostly there to supply the laughs; the ending *seems to have more to do with* wish-fulfilment than truth; and there is the niggling problem that the play itself cannot avoid a degree of bleeding heart liberalism – in the end, the dilemmas of the homeless and the mentally unstable are far more important than the agonies of conscience of the would-be do-gooders.

All the same, this is an admirable, moving play that attempts to grapple fairly with issues that stare you in the face the moment you step back out onto the street.

Continues at the Theatre Upstairs, Royal Court, London SW1 (0171-730 1745) to April 20.

Concert/**Richard Fairman**

# Kremer and the Philharmonia

It is sometimes a good idea to have a major soloist to lead the audience by the hand. The Philharmonia was rewarded with a very respectable following *for the last in its series of concerts* with the violinist Gidon Kremer last week – even though the programme wandered off course and ended up in the depths of late 20th-century modernism.

Kremer is a thinking musician. He wants to go beyond playing the obvious pieces, even when he *is choosing his 20th-century reper*toire. This strange Russian programme included one piece that was written for him, and another rarity that Kremer arranged for himself to get it a wider hearing. His Brahms recently may have been less than ideal, but this is a class of music he has made his own.

*Every slight wisp of a musical* idea in the Suite from Lourié's opera *The Blackamoor of Peter the Great* was filled with expression, which was just as well, as wisps were all that was on offer. Mention of blackamoors immediately brings to mind Stravinsky's *Petrushka* and there were musical recollections of *that here as well – circus-like drum* rolls, solo woodwind chatter and so on. But Lourié's score is a stop-go affair that can barely go a minute without running out of breath.

The only passages to go beyond atmospheric doodling were Kremer's two short "arias", which are his reward for putting together this suite from an opera that is still waiting for its first performance. It was a neat idea to pair that with Stravinsky's arrangements of two discarded brief sections from Tchaikovsky's *Sleeping Beauty.*

The main work, however, was still to come. This was Schnittke's Violin Concerto No. 4, a gothic extravaganza, into which Schnittke tips everything that the concerto form might be or ever have been. The soloist sometimes plays with the orchestra, sometimes against it. In the central movement he engages in competitive showmanship, playing faster and faster until he is *left flailing wildly in the air like a* madman. In the finale he turns to subdued Mahlerian angst, as though to show that he can still touch the heart, even after everything that has been thrown at him. It is a larger-than-life solo role. No wonder Kremer refers to it as "my piece".

*This performance with the Phil*harmonia sounded well prepared and is due to be recorded. Kremer finds worlds of expression among the theatrical excesses of the violinist's part. In typical Schnittke style the orchestra is gigantic, including everything from a harpsichord to a saxophone in its desire to set off *momentary resonances from every* era in the history of music. Christoph Eschenbach did what was necessary to keep the ranks in order. He also conducted a heavyweight Prokofiev Symphony No 1 (the Minuet was danced in Russian army boots) and an all-or-nothing performance of Tchaikovsky's *Francesca da Rimini.*

Sponsored by Motorola.

# INTERNATIONAL ARTS GUIDE

## ■ AMSTERDAM

**CONCERT**

**Concertgebouw**
Tel: 31-20-5730573
● *Bengt*-Ake Lundin: the pianist performs works by Mozart, Liszt, De Frumerie and Ravel; 8.15pm; Apr 10

**EXHIBITION**

**Stedelijk Museum**
Tel: 31-20-5732911
● Munch and After or The Obstinacy of Painters: exhibition showing a selection of late work by Edvard Munch (1863-1944) in combination with work by several contemporary artists who have either expressed great admiration for him or whose work *expresses* influences from Munch. The exhibits come from the collections of the Stedelijk Museum and Oslo's Munch *Museet; from* Apr 16 to Jun 9

## ■ ATHENS

**CONCERT**

**Athens Concert Hall**
Tel: 30-1-7282333
● Athens State Orchestra: with conductor Nikos Athinaeos and pianist Janis Vakarelis perform works by Papaioannou, Dvorák and Rachmaninov; 8.30pm; Apr 10

## ■ BALTIMORE

**CONCERT**

**Joseph Meyerhoff Symphony Hall**
Tel: 1-410-783-8000
● Baltimore Symphony Orchestra: with conductor David Zinman and pianists Leon Fleisher (Apr 11, 13) and Gary Graffman (Apr 12, 13) *perform* works by Paine, Bolcom and Beethoven; 8.15pm; Apr 11, 12, 13

## ■ BERLIN

**CONCERT**

**Konzerthaus** Tel: 49-30-203090
● Symphony No.6: by Mahler. Performed by *the Berliner* Sinfonie-Orchester with conductor Michael Gielen; 8pm; Apr 11, 12, 13

**DANCE**

***Staatsoper unter den Linden***
Tel: 49-30-2082861
● Ballett unter den Linden: perform Maurice Béjart's choreographies Nacht/Verklärte Nacht to music by Arnold Schoenberg and Der wunderbare Mandarin to music by Bartók; 7pm; Apr 10 (7.30pm), 12, 13

**OPERA**

**Komische Oper** Tel: 49-30-202600
● La Traviata: by Verdi. Conducted by Shao-Chia Lü and performed by *the Komische Oper.* Soloists include Nadelmann, Oertel, Fedin and Dobber; 7pm; Apr 12

**Staatsoper unter den Linden**
Tel: 49-30-2082861
● Il Barbiere di Siviglia: by *Rossini.* Conducted by Sebastian Weigle and performed by the Staatsoper Unter den Linden. *Soloists* include Katharina Kammerloher (Apr 11), Dagmar Pecková (Apr 14), Isabella Nawe, Jeffrey Francis, Gerd Wolf and Kwangchul Youn; 7pm; Apr 11, 14 (6.30pm)

## ■ BONN

**OPERA**

**Oper der Stadt Bonn**
Tel: 49-228-7281
● Manon Lescaut: by Puccini. Conducted by Eugene Kohn and performed by the Oper Bonn. Soloists include Karen Notare and Fabio Armiliato; 8pm; Apr 10, 13 (7pm)

## ■ BRUSSELS

**THEATRE**

**Kaaitheater** Tel: *32-2-2015959*
● Brace Up: Finished Story: based on Anton Chekhov's Three Sisters. Directed by Elizabeth LeCompte and performed by the Wooster Group. The cast includes Willem Dafoe, Ari Fliakos, Karen Lashinsky and Beatrice Roth; 8.30pm; Apr 11, 12, 13, 14, 16

## ■ HELSINKI

**EXHIBITION**

***Amos Anderson Art Museum***
Tel: 358-0-640221
● L-G Nordström. Years 1946-1996: retrospective exhibition devoted to the work of the Finnish artist Lars-Gunnar Nordström. The display shows the artist's work over a 50 year period, including paintings, sculptures and prints as well as sketches of *works-in-progress and* preliminary drafts from the artist's personal storehouse. Nordström was *one of the pioneers of abstract* geometrical art in Finland; from Apr 10 to Jun 16

## ■ LEIPZIG

**OPERA**

**Oper Leipzig** Tel: 49-341-1261261
● Carmen: by Bizet. Conducted by *Jiri Kout and performed by the Oper* Leipzig and the Gewandhaus-orchester. Soloists include Cornelia Helfricht, Hendrikje Wangemann, Ernesto Grisales and Tomas Möwes; 7pm; Apr 13
● Il Trovatore: by Verdi. Conducted by Neuhold and performed by the Oper Leipzig and the *Gewandhausorchester. Soloists* include Makris, Hoffstedt, Grisales, Tsumaya, Noack and Gaviola; 7.30pm; Apr 10

## ■ LINZ

**CONCERT**

**Brucknerhaus** Tel: 43-732-7612
● Wiener Philharmoniker: with conductor André Previn perform works by Vaughan Williams, Cerha and Beethoven; 7.30pm; Apr 15

## ■ LONDON

**CONCERT**

**Barbican Hall** Tel: 44-171-6388891
● Gothenburg Symphony Orchestra: with conductor Neeme Järvi and violinist Cho-Liang Lin perform Sibelius' Symphony No.7 in C, Violin Concerto in D minor and Symphony No.3 in C; 7.30pm; Apr 12
● The Royal Philharmonic Orchestra: with conductor Jun'ichi *Hirokami and violinist* Boris Belkin perform Berlioz's Le Corsaire Overture and Symphony *Fantastique, and Brahms'* Violin Concerto; 7.30pm; Apr 10

**Wigmore Hall** Tel: 44-171-9352141
● Emma Johnson and Friends: the clarinettist and friends perform Schubert's Octet in F, D803; 6pm; Apr 10

**EXHIBITION**

**Design Museum**
Tel: 44-171-3786055
● Paul Smith True Brit: this exhibition features the works of the British fashion designer and businessman Paul Smith. The display includes 18 fashion shows on touchscreens, a Paul Smith True Brit internet site, a conveyor belt which demonstrates how the Smith *operation works and Paul Smith's* personal notebooks; to Apr 10

**OPERA**

**London Coliseum**
Tel: 44-171-8360111
● Orfeo: by Monteverdi. Conducted by Nicholas Kok and performed by the English National Opera. Soloists include Guy de Mey, Sarah Connolly and Nerys Jones; 7.30pm; Apr 12, 17 (7pm), 19

## ■ MUNICH

**DANCE**

**Nationaltheater**
Tel: 49-89-21851920
● Shannon Rose: world premiere of a choreography by Youri Vàmos to music by Sibelius, performed by the Bayerisches Staatsballett; 7.30pm; Apr 10, 12

## ■ NEW YORK

**CONCERT**

**Carnegie Hall** Tel: 1-212-247-7800
● American Composers Orchestra: with conductor Dennis Russell *Davies and pianist Cristina Ortiz.* This all-Brazilian orchestral concert features in "Sonidos de las Américas", the American Composers *Orchestra's third annual festival of* music from Latin America; 3pm; Apr 14

## ■ PARIS

**CONCERT**

**Salle Pleyel** Tel: 33-1 45 61 53 00
● Orchestre et Chorale Paul Kuentz: with conductor Paul Kuentz perform Mozart's Requiem and Charpentiers Te Deum. Soloists include sopranos Hélène Obadia and Brigitte Vinson, alto Catherine Cardin, tenor Hervé Lamy and bass Philipe Langshaw; 5.30pm; Apr 14

**OPERA**

**L'Opéra de Paris Bastille**
Tel: 33-1 44 73 13 99
● Billy Budd: by Britten. Conducted by Gary Bertini and performed by the Opéra National de Paris. Soloists include Robert Tear, Rodney Gilfry and Eric Halfvarson; 7.30pm; Apr 10, 12, 15

## ■ STOCKHOLM

**OPERA**

**Kungliga Teatern - Royal Swedish Opera House** Tel: 46-8-7914300
● The Maids: by Bengtson. Conducted by Niklas Willén and performed by the Royal Swedish Opera. Soloists include Anna Eklund, Eva Pilat and Gunilla Söderström; 7pm; Apr 10

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*Financial Times Business Tonight*

## COMMENT & ANALYSIS

**Martin Wolf**

# A difficult bomb to defuse

### Emu is certain to create serious political tensions in Europe that can only be contained by a willingness to move further towards political integration

For UK politicians, European economic and monetary union is a bomb with a delayed fuse of uncertain duration. Mr John Major, the prime minister, hopes it will never go off. He is almost certain to be disappointed. He also hopes the proposed referendum will keep his party together while it waits anxiously for the explosion. But Emu is not politically explosive for the UK alone. It is politically risky for the whole European Union.

This is not how Emu has usually been presented. In particular, Mr Helmut Kohl, the German chancellor, saw Emu as a sacrifice made by Germany in return for moves towards greater political integration. On this view, Emu is an essential part of the movement towards the wider integration Mr Kohl seeks.

A somewhat different view is that Emu, regardless of its own impact on political union, itself requires such a union. Mr Hans Tietmeyer, president of the Bundesbank, argued in April 1995 that "after a certain point, economic integration cannot realistically be expected to advance further without the prospect of further progress in the field of politics. The transfer of an elementary sovereign right such as monetary policy to a European Central Bank is likely to mark that point."

On similar lines, Mr Otmar Issing, the Bundesbank's chief economist, notes in a pamphlet for the Institute of Economic Affairs, a London-based think tank, that "historical experience shows that national territories and monetary territories normally coincide."* In explaining why this should be so, Lord Lawson, the former UK chancellor of the exchequer, notes that "if it is to be workable at all, monetary union requires full political union". An independent central bank, "without full-blooded political union", would, he argued in July 1995, "be constitutionally and democratically unacceptable".

There is yet a third perspective: that Emu and political integration are entirely independent aims. Mr Kenneth Clarke, the UK chancellor, for example, argued in February 1995 that "it is a mistake to believe that monetary union need be a huge step on the path to a federal union".

So will Emu lead towards greater political integration, require such integration, or be independent of it? The answer to these questions is that Emu is neither a necessary nor a sufficient condition for further political integration: but the ability to achieve further political integration is a necessary condition for a workable and enduring Emu.

Emu is not necessary for further political integration. It would be possible to develop common foreign and security policies and common policies on justice and immigration without Emu. Similarly, more powers could be transferred to the European parliament and the scope of qualified majority voting in the Council of Ministers could also be expanded without Emu.

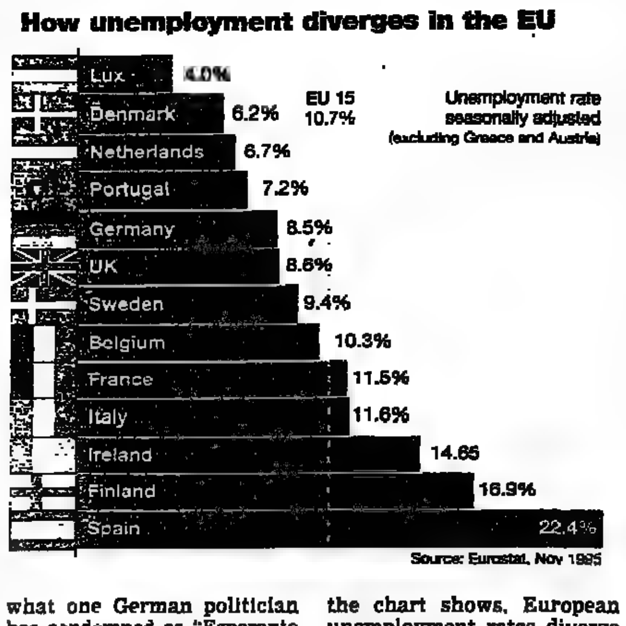
More important, Emu is also not sufficient to secure further integration. On the contrary, both in the transition to Emu and in its ultimate operation Emu is as likely to tear the European Union apart as to bring its members close together. Emu would impose pressure on the ability of EU member states to co-operate harmoniously in at least 10 different ways.

First, Emu must either exclude some of those which want to enter or include some which others want to leave out. If several big countries are excluded, they will resent that exclusion. If almost all are included, other countries are likely to resent the threat to monetary stability.

Second, the judgmental nature of the criteria in the Maastricht treaty, particularly on fiscal policy, will make the division among member states more painful, because more arbitrary.

Third, the Germans will surrender the independence of the Bundesbank in return for what one German politician has condemned as "Esperanto money". Such a sacrifice must undermine their devotion to the European ideal.

**How unemployment diverges in the EU**




Source: Eurostat, Nov 1995

Fourth, the French have wanted Emu because they have frequently found the Bundesbank's monetary policy too tight. Either they will fail to obtain the more expansionary policies they seek within Emu or the Germans will be forced to accept more relaxation than they wish.

Fifth, the European Central Bank is certain to impose inappropriately inflationary or deflationary monetary policies on particular member countries from time to time. The more economically diverse the membership, the more frequent that will be.

Sixth, successful policies to lower unemployment could, in the words of Mr Eddie George, governor of the Bank of England, "have a significant impact on the sustainable pattern of real wages and of real exchange rates within Europe. And in these circumstances some independence of monetary policy, and some nominal exchange rate flexibility, could be useful in rebalancing the different national economies." This is important because, as the chart shows, European unemployment rates diverge substantially.

Seventh, a "social union", aimed at raising standards in the labour market, is also likely to weaken labour market adjustment to changing economic conditions in particular countries. Pressures for more expansionary monetary policy will be the inevitable consequence.

Eighth, in an irrevocable monetary union, the risks from fiscal incontinence fall on all participants, not just on the irresponsible country. Concern over this explains why Mr Theo Waigel, the German finance minister, has proposed a "stability pact", with fiscal deficits normally at 1 per cent of gross domestic product and never over 3 per cent. But he is unlikely to obtain sufficiently tough sanctions to achieve such targets.

Ninth, Emu must also allow countries the fiscal room to respond to country-specific shocks or divergent cyclical conditions. In the absence of a flexible mechanism for fiscal transfers within the EU or substantial labour mobility across frontiers, substantial flexibility in government borrowing seems the only hope. But this would create a conflict with the need for fiscal discipline.

Finally, the European Central Bank will both determine its objectives and how to achieve them. As the child of a treaty, it will almost certainly be the most powerful and politically unaccountable central bank in the world.

What all this means is quite simple: in and of itself Emu is certain to create significant political tensions within individual member states, among member states and between member states and the European Central Bank. Emu will prove compatible with a healthy EU only if these various tensions are contained by a strong belief in the legitimacy of all the various decisions it involves.

Provided members were prepared to accept the legitimacy of decisions over which they would have, individually, little control, Emu would require no greater political integration than is already contained in the Maastricht treaty. Yet this would be so only because members had such confidence in one another and in the EU that further political integration would be quite simple to achieve. Further political integration would not be necessary only if it were quite easy. But it is demonstrably difficult, which is why Emu has advanced much further than political integration.

"Do resolute courage in monetary policy and timid hesitation in the area of general politics complement each other to produce a promising integration strategy?" asks Mr Issing. The answer to this telling question is "no". Emu is a bomb. The explosive force it is bound to generate can be contained only by a strong commitment to deeper integration among its actual and potential members. Does such a commitment exist? On present evidence, it seems unlikely.

**Otmar Issing, Europe: Political Union through Common Money?, Occasional Paper 98 (London: The Institute of Economic Affairs, 1996).*

**Philip Stephens**

# Blair and the gospel according to Clinton

Tony Blair needs Bill Clinton to win in November. I suspect that the Labour leader would tell you that the outcome of the US presidential election is irrelevant to his own prospects of replacing John Major. But, assuming the prime minister is not forced into an autumn poll, Mr Blair would be wrong. If the 72-year-old Bob Dole wins the White House then Mr Major's stubborn optimism will seem just that little bit less incomprehensible.

I doubt somehow that the voters of middle America have ever heard of the Labour party's youthful leader. But to middle England, Messrs Clinton and Blair are two of a kind. They are the modern face of left-of-centre politics, New Democrat, New Labour. Both have shaken up their parties and given a hard edge to their policies. They preach a similar gospel of active rather than big government. It will count in Peterborough if the voters in Peoria decide that it is the Republicans, after all, who have the answers.

Mr Clinton won in 1992 because he was a different sort of Democrat. If Mr Blair emulates that success it will be because his instincts are just about as distant from those of his Labour predecessors as you could reasonably imagine. Take away the lines etched on the president's face by the rigours of office and the two men even look alike.

So there is scarcely-concealed excitement in the Blair camp ahead of their meeting in the Oval Office later this week. There are no votes in the encounter for Mr Clinton, little reflected glory for a US president in welcoming the opposition leader of a quaint little country on the other side of the Atlantic. But the signs are that he intends to be generous in his reception.

When the two met in London last November they got on well. As one US official remarked at the time, there was "generational chemistry" between two near-contemporaries at Oxford. And Mr Blair is not Mr Major. The White House, it seems, has still not forgiven Mr Major's Conservatives for their crassly overt support for George Bush.

Back in the dark days of Labour's fourth consecutive election defeat in 1992, the Democrat victory offered a last, flickering, flame of hope for Labour. It broke the spell of the free market politics which had kept the Republicans in the White House and the Conservatives in Downing Street throughout the 1980s.

Crucially, Mr Clinton had dumped the politics of interest groups and minorities which bedevilled the old Democrats and still paralysed Labour. He had distanced himself from the big unions. He had preached the gospel of enabling rather than oppressive government. And he had won. During subsequent pilgrimages to Washington before he became leader, Mr Blair drew the obvious conclusion. As he told John Darnton of the New York Times last week, there was a shared diagnosis in Washington and London. Both parties had reached an impasse during the 1960s and 1970s: "We were big-government, special-interest-run parties."

That is not to say that New Labour has been constant in its affections. They are a fickle lot, these modernisers. Mr Blair's election as leader in 1994 gave him the opportunity to put the lessons into practice. But it also coincided with a dramatic slump in the president's fortunes. His domestic programme had collapsed and Newt Gingrich's Republicans were sweeping the Congress.

Suddenly, Mr Clinton was not quite such a fashionable commodity among Labour's Islington intelligentsia. There was scarcely-disguised scorn at the president's failure to develop a coherent programme for government before the election. With all the arrogance of those who have never been close to real power, some of Mr Blair's friends assured us he would never make such an elementary mistake. So Mr Blair headed first for Australia, where Paul Keating appeared to be a left-of-centre leader who understood not only how to win power, but also to use it.

But now Mr Keating has been swept aside, and Mr Clinton is riding high in the opinion polls. The policy parallels are again being drawn between New Democrat and New Labour. Welfare-to-work, a central Clinton theme in 1992, is near the top of Mr Blair's agenda four years later. The Labour leader's stakeholding philosophy contains important echoes of the "responsible corporation" and "responsible investment fund" ideas being promoted in Washington. Both attempt to address the short-termism and under-investment which threaten employment and prosperity on both sides of the Atlantic.

There is a broader common understanding that, if left-of-centre governments are to eschew Keynesian demand management, they must demonstrate that there are other ways in which government can make a difference. Gordon Brown, Labour's shadow chancellor, has built good relationships with the thinkers in the US Administration, notably Robert Reich and Larry Summers. Education, training, and investment are the constant themes of their conversations.

And it is here we come to the essential link between Mr Clinton and Mr Blair. For all the cultural and political differences which come with 3,000 miles of the Atlantic, both will be fighting elections dominated by the nightmare of the 1990s – economic insecurity. The choice lies between the right's prescription of small government, low taxes and an ever more flexible marketplace and the centre-left's promise of proactive partnership between state and private enterprise.

Mr Blair will gain most from this week's encounter. It still matters in Britain when politicians are treated well at the White House. But in his position I would have only one question for Mr Clinton. How does the president plan to win?



## ·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

### Support social clause in trade agreements

*From Mr John Monks.*

Sir, Your editorial "The road to Singapore" (April 3) argues that it is better for those who oppose protectionism to engage with the debate around international trade and labour standards, rather than to stand in the way of change.

The Trades Union Congress heartily agrees. So do trade unions in the developing countries, even if in some cases their governments do not.

Trade unions in both the developing and the industrialised countries advocate a social clause in trade agreements to ensure that certain basic standards are observed in all countries. These core standards – freedom from forced labour, freedom to organise independently, freedom from discrimination, and measures to reduce dependence on child labour – are among the basic rights that every country should be able to observe, regardless of its level of development.

Our view is that the expansion of trade and a core of established labour standards are mutually reinforcing and provide the best opportunity to raise living standards in the developing world for all workers, whether union members or not.

If the UK government wants to tackle the protectionist pressures that clearly exist, it should work with those of us who want to see a social clause introduced through the multilateral mechanisms of the World Trade Organisation, rather than imposed by unilateral action by the industrialised world.

**John Monks,**
**general secretary,**
**Trades Union Congress,**
**Congress House,**
**Great Russell Street,**
**London WC1B 3LS, UK**

### Resignation essential

*From Mr Peter Frankel.*

Sir, Chancellor Kenneth Clarke has only one choice after his statement to the House of Lords Committee on Monetary Union ("Minister warns against hasty Emu rejection, March 29) – resign from the government.

No-one should remain a minister who has the following three policies in mind:

- The removal from the Bank of England of all rights to determine interest rates or any matter which today is its exclusive prerogative;
- To remove from parliament all power to make decisions affecting the economy and make it a surrogate of a central bank located in Frankfurt, Germany;
- To mortgage the future of the British people to the point where they will lose their sovereignty, the right to make their own decisions, and will be subject to the determinations of unelected officials and a small group of people sitting in Brussels running the new federation.

Mr Clarke's statement that there would be an investment loss is incorrect. On the contrary, German banks and industries are increasing their investments in the UK because they are confident that we will never join any economic union as proposed by the Maastricht treaty.

**Peter Frankel,**
**"Elmstead",**
**Chapel Road,**
**Limpsfield Common,**
**Surrey RH8 0SX, UK**

### Russian nationalisation would be real fear

*From Mr Mergen Mongush.*

Sir, In her article "Yeltsin signs Belarus pact" (April 3), Chrystia Freeland said closer ties established by President Yeltsin with Belarus was a tactic in his campaign strategy – which included a promise to re-build the Soviet Union. I hope this does not frighten readers as being a sign of a U-turn in Russian policy.

The signing has become just another celebration in a long list of such events that appeared before, during and after the Soviet Union. The Soviet Union was first of all a country with a strict, planned economy based on Lenin's utopian idea of a society where it is possible for a group of people in a planning body to envisage demand and supply for the nation, and plan it all.

That was based on Marx's equally utopian idea of state ownership which would lead to idyllic crisis-free production, similar to that of a single producer which could manufacture all that was needed. A real attempt to re-build the Soviet Union would have begun exactly as it was built in the first place – by speedy nationalisation and plans written by pro-Communist economists and forced by the entire state with, as Trotsky put it, military discipline. So watch out for nationalisation in Russia – that is what you have to fear.

**Mergen Mongush,**
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### Factors behind Global Opportunity Fund

*From Sir David Walker.*

Sir, I am writing with regard to the article "Investors win round in $44m suit" (April 2) about the Global Opportunity Fund. I wish to draw attention in particular to the following.

- The Global Opportunity Fund is a Cayman Islands fund, not a Luxembourg fund.
- The root cause of the problem is that the fund and its investors were let down by Intercapital Asset Management Limited, the fund manager. The position taken by Lee & Allen's clients in the current litigation is that, following trading losses sustained by the fund, Intercapital over-valued certain of the securities in the fund and therefore overstated the value of the fund as a whole. Intercapital is now in liquidation. Neither Intercapital not its managing director, Geoffrey de Sibert, was connected with Morgan Stanley.
- Morgan Stanley Bank Luxembourg (MSBL), as the fund's administrator, received and reviewed asset valuations provided by Intercapital. The valuations were supported by independent confirmations from outside market makers, on which MSBL relied in good faith. MSBL had no reason to believe those confirmations were inaccurate, or to attempt to second guess them by calling for data based on secondary sources used elsewhere in a completely separate entity within the Morgan Stanley Group for a different purpose (day-to-day monitoring of collateral for loans).
- A number of investors owe Morgan Stanley International Limited (MSIL) money that was loaned to them. MSIL is entitled to have that repaid.
- The description of what happened in relation to the fund since the beginning of this year is misleading. The directors of the fund concluded in January this year that the proper course of action was to place the fund in liquidation. We are frankly puzzled as to why the claimant investors took a different view by voting against liquidation at an EGM in February. We were promised details of why the claimants believed the appointment of so-called "independent" directors (to be proposed by the claimants) was more appropriate than allowing an obviously independent liquidator to wind up the outstanding affairs of the fund. These details have not been forthcoming. Morgan Stanley continues to take the view that liquidation is the most appropriate course.

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# Anglo-German attitudes

Mr Jürgen Schrempp, chairman of Daimler-Benz, has never made any secret of his desire to entrench the Anglo-American notion of shareholder value in Germany's biggest industrial company. Yet the decision by the supervisory board last week to sanction the introduction of an executive stock option scheme despite the protests of most of the board's employee representatives still looks a surprising departure for the group.

The post-war corporate culture in Germany has been characterised by a high degree of trust between the different stakeholders, together with low wage differentials in the workplace. To adopt a stock option scheme when the payouts from such arrangements are causing political uproar in the US, and to a lesser extent the UK, might appear quixotic.

Yet the case for seeking to establish a closer alignment between the interests of owners and management is not difficult to make here. One of the disadvantages of a bank-dominated corporate system is that banks may have a greater interest in promoting size rather than profitability. It is certainly striking that Deutsche Bank, the biggest shareholder in Daimler-Benz, was intimately involved in the disastrous conglomerate strategy pursued by Mr Schrempp's predecessor, Mr Edzard Reuter.

Nor does bank representation on the board appear to have provided the guarantee of close performance monitoring that some British admirers used to claim. Recent crises at Klöckner-Humboldt-Deutz, Metallgesellschaft, Schneider and Südmilch have cast serious doubt on the effectiveness of supervisory boards generally. And at Daimler-Benz problems were allowed to fester for far longer than a market-based governance system would have tolerated.

As the maturing of Germany's book reserve system of occupational pensions imposes greater needs for external capital, and German companies aspire to a greater international presence, it is inevitable that governance and accountancy will shift further in an Anglo-American direction. Daimler-Benz's decision to obtain a listing in New York was an early indication of the trend.

Yet such moves are not without wider costs. The sense of community in the German workplace creates valuable social capital which has contributed importantly to competitiveness in world markets. But such capital is anyway threatened by increased international competition, new technology and an overvalued exchange rate. These are probably more important threats to social consensus in industry than stock options for top managers in the relatively small part of the economy that is in the hands of quoted companies.

The idea that property ownership entails duties as well as rights is firmly embedded in the German constitution. It follows that decisions on such matters as dividend policy at Daimler-Benz and elsewhere will always be tempered by social conscience.

# Mandela's rand

It does not compare with the election victory that brought Nelson Mandela to power, or the Springbok triumph in the world rugby cup, but it is none the less a landmark for post-apartheid South Africa. Last Thursday the African National Congress (ANC) became the custodian of the South African rand, with the appointment of Mr Trevor Manuel, the former trade and industry minister, to the finance portfolio vacated by Mr Chris Liebenberg.

For the first time since the government of national unity took office in May 1994, the holder of this critical job comes from the ranks of the ANC – much to the market's alarm.

The rand fell 10 cents in one day to a historic low of 4.11 against the dollar. Over the last six weeks, the currency has dropped 12 per cent, prompted by speculation about Mr Mandela's health, as well as rumours about Mr Liebenberg's impending departure.

It was a baptism of fire for Mr Manuel, obliged to come to the defence of the rand at his first press conference. Yet there is no reason to believe that he is any less committed than his predecessors to the fiscal discipline that has marked the country's economic management. Far from being seen as a liability, Mr Manuel's record as a black anti-apartheid activist can be turned to advantage, for he can speak with a frankness denied his apolitical predecessors.

First he should hammer home the economic realities. Although the economy grew by 3.5 per cent last year, the highest for a decade, only 12,000 formal sector jobs have been created in the past three years, while some 300,000 school leavers enter the market annually.

Foreign investment has been disappointing. The reason is clear. In a recent study of global competitiveness by the World Economic Forum, South Africa ranked 42nd out of 48 countries assessed.

If the government is to achieve its target of 6 per cent annual growth by 2000, Mr Manuel has no time to lose. Privatisation, which is encountering trade union resistance, must move faster. The budget deficit, currently 6 per cent of GDP, targeted at 5.1 per cent in 1996-7, must be reduced further.

The new minister must also press ahead with the phased relaxation of exchange controls. And perhaps above all, he must urge the Congress of South African Trade Unions, which successfully lobbied against an increase of VAT by 1 per cent in the recent budget, to accept the need for more revenue raising measures.

Few political parties have come to power facing such formidable challenges as the ANC. But then few parties enjoy such an overwhelming mandate from their electorate. If Mr Manuel does not use this asset in the months ahead to speed up the pace of economic reform, the rand may be in for a rough ride.

# Better teaching

Nothing exemplifies the fragmented and unprofessional state of Britain's teaching profession better than the annual Easter charade of the teachers' union conferences. By the low standard of previous years, the 1996 conferences have not been too bad so far. The government's schools inspectorate has come in for abuse, with calls for its abolition and threats of isolated industrial action. Delegates to the conference of the National Union of Teachers, the most militant union, yesterday defied their leadership and voted against a move to give rank-and-file teachers a more direct say over union policy.

Both are retrograde steps, but nothing decided so far will inflict serious disruption on schools themselves. However, the creation of a general teaching council – a single body representing the professional interests of all classroom teachers – cannot come too soon. Government and opposition alike now stress the need for improvements to Britain's educational performance. They are right, but constructive dialogue with teachers is not to be had through the current union regime.

That said, better teaching is not only a function of better teachers. The environment within which pupils learn is equally vital. Much of this is beyond the control of any government. But one important element – financial resources for school infrastructure – is a direct state responsibility.

Mr David Blunkett, the shadow education secretary, addressed this issue in a thoughtful weekend speech. In effect, he called for a new version of the government's Private Finance Initiative to be applied to improvements in state school infrastructure. Schools would club together and sign contracts with the private sector for "planned maintenance programmes" to upgrade teaching facilities. In return for the capital and associated maintenance agreements, schools would make lease-type payments over the duration of the contract. Mr Blunkett talked of "hundreds of millions" of pounds being raised for school improvements in this way, and said the shadow Treasury team agreed that such spending would not "fall foul" of the public sector borrowing requirement.

There is a strong case for extra capital spending on state schools, a large proportion of which are in a poor physical condition. However, Mr Blunkett's outline plan has all the hallmarks of the PFI at its most dubious. The purpose of the PFI is to transfer real risk to the private sector in return for better service: it is not to act as an off-balance-sheet device for disguising government spending.

The provision of new schools might involve sufficient risk transfer to justify recourse to the PFI. But refurbishing existing buildings is unlikely to do so. Alas, school improvements are not to be had on the cheap.

# The storm on the horizon

## Germany's pensions system may need radical reform as the workforce declines and the number of pensioners rises, says Andrew Fisher

With their economy struggling and jobs threatened, Germans already have plenty to worry about. But now they are beset by another nagging anxiety: how generous will their pensions be? At a time of weak economic growth, record unemployment and high tax and social security costs, the viability of the state system enabling people to retire in comfort is being increasingly challenged.

The debate no longer concerns only the financial crunch to be faced in coming decades when more Germans retire and fewer are in work. It has forced its way onto today's agenda because the government is striving to make immediate reductions in the state's burden on the economy.

In the political hot seat is Mr Norbert Blüm, the Christian Democrat (CDU) labour minister, who has promised to defend the pension system "tooth and nail" – a pledge looking ever more difficult to fulfil.

The state of the economy and strains on the federal budget have given the issue a new urgency. Chancellor Helmut Kohl and his cabinet will discuss how to cut the cost of the pension system later this month. The proposals are likely to include a higher retirement age for women, larger contributions for those spending long periods in higher education, and lower pensions for German-descended immigrants from eastern Europe.

The government has already had one attempt at cutting pension costs. In March, it thrashed out a solution to one of the most difficult problems: the steep cost of early retirement. Last year, nearly 300,000 people retired early under a scheme introduced in 1984 to help cut jobless figures. Big companies, which bear little of the cost, have made increasing use of it to shed labour.

"Companies have laughed themselves silly that they could do this so easily," says Mr Johann Eekhoff, a former economics ministry official and now economics professor at Cologne University. Last year's early retirees will cost the pension system DM38bn (£17bn) more over the next three years than if they left work at 63. In future, more of the cost will be shifted onto companies and individuals. This should save the pension system DM17bn between 1996 and 2000.

But without further action and revived economic growth, the state system – originated by Chancellor Bismarck in 1891 – will have a deficit of DM10bn next year. This would mean a further rise in contributions from the present 19.2 per cent of an individual's gross income (of which employer and employee pay half each) to 20 per cent or more; in 1993, the rate was 17.5 per cent.

The government is determined to avoid this. Mr Blüm has drawn up a package of savings, but is opposed to basic changes in the pay-as-you-go system under which pensions are paid from current contributions and not from funds built up over previous years.

Many experts do not believe, however, that the pay-as-you-go system can survive without extensive reforms. The low birth rate means the number of workers paying contributions is dwindling fast, while the number of pensioners is increasing. As the post-war baby boomers retire, the situation will worsen.

The most severe test will not come until around 2030, when there will be about one worker for every pensioner. But policy initiatives must be enacted early since they can take years to have an impact. There are already about two workers for every pensioner compared with three in the 1960s. Germany's old-age dependency ratio (the proportion of retired people to those of working age) is expected to rise from 35 per cent now to around 70 per cent by 2030.

"Since the rate of active participation in the workforce is naturally far less than 100 per cent, every worker would have to finance more than one retiree, resulting in an absurd social tax rate," says Mr Heino Fassbender, a director of the German operation of McKinsey, the management consultancy.

The government has already taken some steps. Under a 1992 law, early retirement will be discouraged by making it less worthwhile to stop working before 65; this was to start biting after 2001, but Mr Blüm's proposed reforms could advance this. Increases in the state pension are also now linked to rises in the net, rather than the gross, income of an individual. This will slow their rate of increase as higher taxes and social security contributions eat into after-tax income.

But the government is being forced to think harder. The Bundesbank has called the level of tax and social security contributions after German unification "a serious impediment to economic growth". The cost of closing the east German pensions gap with the west is a burden, though a diminishing one. This year, state pensions will cost DM323bn, around 10 per cent of gross domestic product and a third of the total social security budget.

The main proposals for streamlining the pensions system are:

- Encouraging people to stay at work longer. "If people live up to 20 years longer than they used to, you can't say they shouldn't work longer," says Mr Eekhoff. Only 40 per cent of pensioners in west Germany stop work at the official retirement age of 65 – the average leaving age is 59.
- Shortening the length of education so people start work earlier and contribute longer. Many well-educated Germans do not start work until nearly 30.
- Encouraging people to make more provision for their own pensions to supplement those from the state system. Proposals range from modest changes to a wholesale shift to funded schemes, as in the US and UK. State pensions are the mainstay of retirement provision in Germany, accounting for 80 per cent of payments. But shifting to a fully-funded system could cost up to DM10,000bn. One generation would pay twice – for retirees' pensions and their own.
- One way to encourage individuals to make their own savings for the future would be for the state to provide only a low basic pension, worth about 40 per cent of final net income. The present state pension is worth about 70 per cent and averages DM2,000 a month for a west German who has worked 45 years.

The latter notion, proposed by the Bonn-based think-tank Institut für Wirtschaft und Gesellschaft (IWG) with a 25-year transition period, is generally regarded as politically unacceptable. Yet most of the above proposals will have to be implemented in some form if the pay-as-you-go system is not to founder.

"None of these ideas is enough on its own to get a grip on the problem, but together they can provide a solution," says Mr Franz Ruland, director of the German association of pension insurers.

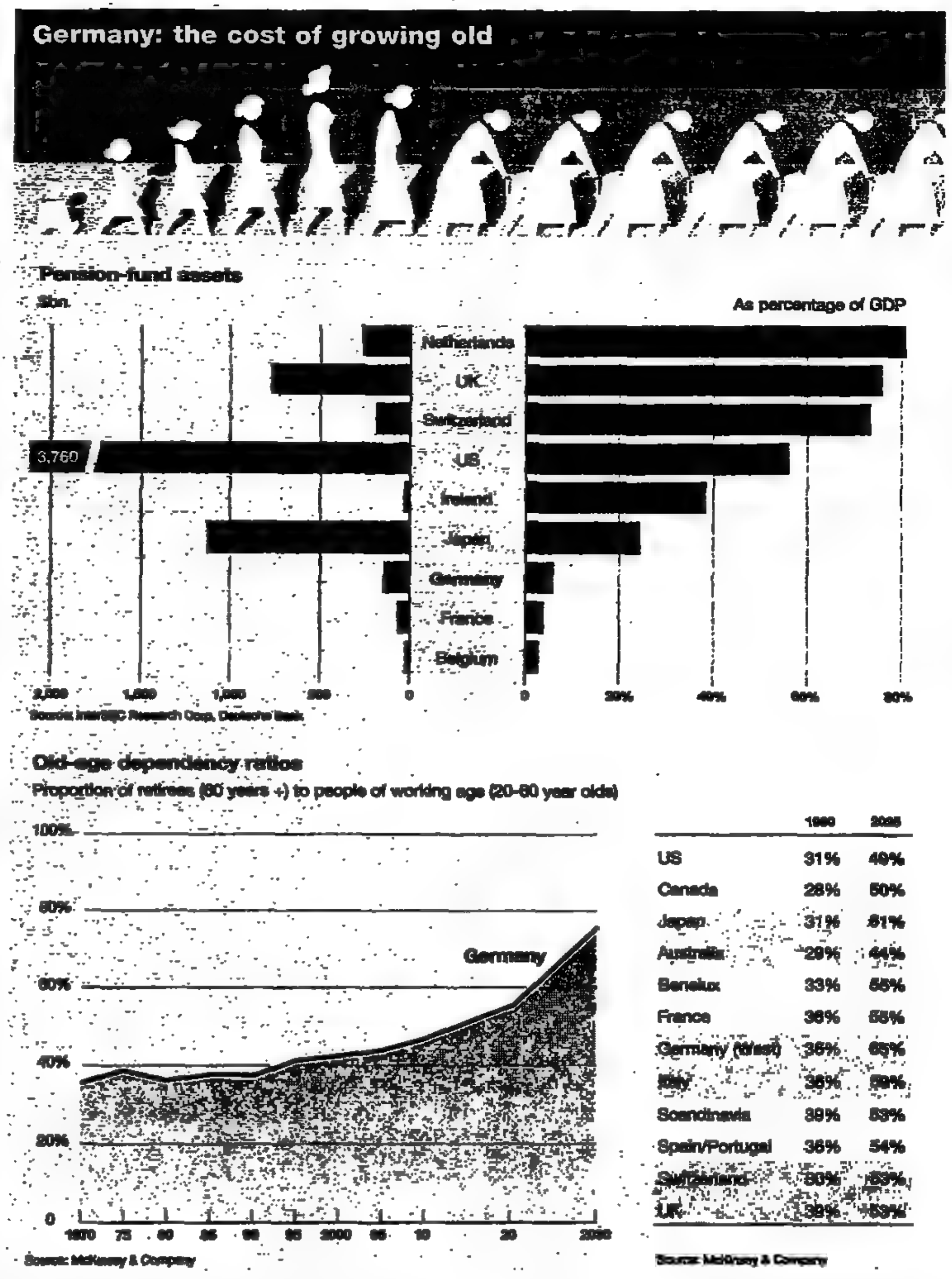
Without action now, pension contributions could rise alarmingly to nearly 30 per cent of gross income in 2030. (Without the 1992 law, they might have approached 40 per cent in that year). "If nothing is done, the system will come apart at the seams," says Mr Eugen Müller, head of the social security department at the employers' federation. "If people are not made aware early enough of the need to do more for themselves, they can lose out."

Some critics say Mr Blüm has done employees a disservice by not drawing attention earlier to cracks in the system. According to Mr Fassbender, who favours much more private provision, "Mr Blüm seems to think there's some kind of magic cake that can be baked to make everybody happy".

While there is no all-purpose solution, the size of the economic cake is crucial. As well as warning about pension costs, the Bundesbank and others have called for greater economic flexibility and deregulation to promote jobs and wealth.

With a dynamic economy, low unemployment and high immigration, Prognos – the Swiss research institute commissioned by the association of pension insurers to assess contribution trends – reckoned in its optimistic scenario that, without further policy action, contributions would have to rise to 25.5 per cent by 2030. Its pessimistic scenario envisaged nearly 28 per cent.

Several experts think the optimistic scenario far too favourable. "It was based on fine weather conditions," says IWG's Ms Stefanie Wahl. For German pensioners, the outlook is stormy rather than mild, and they had better take cover now.




| | 1990 | 2030 |
|---|---|---|
| US | 31% | 49% |
| Canada | 28% | 50% |
| Japan | 31% | 61% |
| Australia | 29% | 44% |
| Benelux | 33% | 55% |
| France | 36% | 55% |
| Germany (West) | 36% | 65% |
| Italy | 35% | 59% |
| Scandinavia | 39% | 53% |
| Spain/Portugal | 36% | 54% |
| Switzerland | 30% | 63% |
| UK | 32% | 53% |

Source: McKinsey & Company

# A boost for capital markets

If private pension provision took off in Germany, the country's capital markets would benefit significantly. German companies have huge internal pension reserves: they amounted to DM270bn in 1994, equivalent to a third of the country's stock market capitalisation.

By setting aside these "book reserves" for retirement commitments, companies defer tax liabilities and have a ready-made source of finance. Mr Alexander Schrader, an economist at Deutsche Bank Research, says: "If this money was put into the capital market, it would be used much more efficiently." Instead, the reserves, often held in bank deposits or other short-term assets, are generally used to finance companies' own investments.

The absence of these funds from the market – pension funds are far smaller in relation to the economy than in many other industrialised countries – "is a significant structural hindrance to the development of German financial markets", adds Mr Schrader.

Even the most steadfast defenders of the state system admit more private provision is required. Nearly half of German workers are in company schemes, paid out of book reserves or from special funds and insurance-linked schemes, which add 20 per cent or so to their state pension.

But because of the increased cost of pensions, many companies find their schemes are inadequate and make up the gap from ordinary cash flow.

# · OBSERVER ·

## Please, no cash for me

■ Ever wondered what it is that really motivates investment bankers? For a start, it's not the bonuses, says Michel David-Weill, the spirit who moves between the three Lazard banks in New York, London and Paris.

Pardon? Coming from the urbane Lazard boss who has just cooked up a complex scheme for redistributing profits among his colleagues, that sounds a trifle, well, rich. The French banker says the scheme has been the subject of long, internal debate, but adds that there is more to debates over bonuses than meets the eye. "It's translated into money terms, but it's not really about money."

So what is it all about? David-Weill says that American bankers care most about fairness; everything has to be shared fairly. Nothing pains them more than seeing the other guy get more than he's worth. French bankers, on the other hand, are motivated by respect. A healthy bonus shows a healthy level of respect from one's superiors.

And the British? In David-Weill's universe, they are driven by a search for happiness.

Come again? "The British want to feel good about who they are and where they work," he says. A bad bonus undermines that sense of well-being.

So now you know.

## Dirty money

■ Here's a chance to make a complete yahoo of yourself. An Internet directory service going by the name Yahoo! this week hopes to raise as much as $46m in a share offer, underwritten by Goldman Sachs.

Yahoo! is based – where else? – in Sunnyvale, California. The company provides something called a "search engine" which, in theory, allows Internet users to elude some of the enormous heaps of rubbish already clogging cyberspace. Founded by two Stanford University graduate students – Jerry Yang, 27, and David Filo, 29 – the one-year-old Yahoo! plans to sell 10 per cent of its stock, 2.6m shares, at a price of perhaps $18.

Weird business, damn funny name. Are Yang and Filo laughing up their sleeves? We only ask out of curiosity, since the word yahoo comes from Jonathan Swift's novel Gulliver's Travels. In the fourth section of the novel Gulliver travels to a land where he encounters a race of civilised horses, called Houyhnhnms. Gulliver also encounters a nasty, hairy, dirty, smelly race of casually-defecating brutes called Yahoos. Gulliver find the Houyhnhnms so appealing that it takes him a while to twig that the Yahoos are, in fact, human beings.

So what's the message? Money stinks?

## Two mad cows

■ A couple of nightmare – sorry, "enormously challenging" – jobs currently available. For more than £100,000 you can join ING Barings in Hong Kong – as head of information technology. Special expertise in setting up computer-based derivatives scams presumably not mandatory.

If that's not your cup of tea, try this. A "home economist" is wanted in Milton Keynes, salary up to £20,000. You will need a "proven track record in the creative preparation of food for photography and promotions, as well as the initiative and flair required to innovate and develop new products and recipes." Given the current panic however, Observer would want a Barings-type wad. The job is with British Meat, part of the Meat and Livestock Commission.

## Educated guess

■ South Africa is cross about what it regards as unfair US competition in a country where both have long meddled – Angola.

Luanda's government was long criticised by Washington for employing the South African mercenary outfit Executive Outcomes to fight the guerrilla force Unita. It finally buckled to pressure last year and sent them home.

Now there's a new US company – Military Professional Resources Incorporated – bidding to train and re-organise Angola's army. US officials claim the relationship will be "completely different": while Executive Outcomes killed rebels. MPRI will largely be teaching English.

MPRI has former US generals on its staff, and was proposed by a consultancy firm run by Herman Cohen, former US assistant secretary for African affairs. The assumption in Luanda – and Pretoria – is that MPRI has more on its mind than verb endings.

"Now, pay attention class. Today we shall be learning how to spell 'central intelligence agency'"...

## Dream machines

■ Who says BMW owners remain wedded for life to the "ultimate driving machine"? A survey by venture capitalists 3i asked 1,000 UK business owners what they drive; BMW came equal tops with Mercedes. But when asked what car they dream of driving, Mercedes moved effortlessly ahead. Any satisfaction among the boys from Bavaria in finding that Rover, now part of BMW, emerges as the third most widely driven executive car will be short-lived; it isn't even on the list of dream machines.

## The Financial Times

### 100 years ago

**Germany/Japan treaty**

By the signature of the new Treaty of Commerce between Germany and Japan, the latter has scored the second great step in its advance to the position of a civilised trading Power – the first step being the Anglo-Japanese Treaty of 1894. Previously Japan has been regarded as a land apart, special Consular jurisdiction and so on being insisted on by the Western Powers; but now all that is waived, and not only so, but Japan is to be allowed to come under the "most-favoured-nation" clause in the matter of tariffs. In return, Japan opens her doors more hospitably to foreign settlers.

### 50 years ago

**An air taxi?**

An aircraft which can operate easily from confined spaces will doubtless have even more attraction in future than it has now. The Fairey Aviation Company is fortunate in having in hand, as Mr. R.T. Outen revealed at the annual meeting, the design and manufacture of a rotating wing aircraft, which is believed to have scope for both civil and military purposes. With its power of hovering, as well as moving in various directions, it may be an air taxi of the future.

FINANCIAL TIMES
Tuesday April 9 1996



# Korean theatre of war stages an unreal drama

By John Burton in Seoul

The truce village of Panmunjom that lies astride the demilitarised zone between North and South Korea should currently be one of the tensest places in the world.

Last week the North announced that it no longer respected the armistice that ended the 1950-53 Korean war and almost every night since Friday, large numbers of heavily armed North Korean troops have entered Panmunjom, in violation of the truce agreement. They have staged several hours of choreographed military exercises before disappearing back into the dark.

Yet this latest Korean crisis has an air of unreality to it. By day, busloads of foreign and Korean tourists still travel to Panmunjom to photograph the North Korean guards that normally patrol their side of armistice line.

"It's business as usual," said one official of the US-led United Nations Command. But that is not the impression being conveyed by the Seoul government.

President Kim Young-sam has convened a national security council meeting for the first time since the tense 1994 nuclear dispute with North Korea. He warned yesterday that South Korea "would not tolerate it if reckless acts of provocation by North Korea continue".

South Korean military forces have also been placed on a heightened surveillance status for the first time in 15 years, although this has not been reflected in a corresponding increase in military readiness along the heavily fortified demilitarised zone.

Many political analysts believe Seoul's reactions are primarily aimed at a domestic audience ahead of a general election on Thursday. A resolute response by Mr Kim's government, which is in danger of losing its parliamentary majority, could win back badly needed conservative voters.

North Korea's actions are probably also not what they at first appear to be. Instead of a prelude to war, they are being seen as a negotiating tactic to press the US to begin talks on signing a formal peace treaty ending the Korean war. Pyongyang hopes this will eventually lead to the withdrawal of the 37,000 US troops from South Korea.

South Korea military officials describe the latest North Korean action as part of a psychological warfare campaign to gain concessions on a peace treaty, following recent statements by North Korean officials that war on the Korean peninsula is only a matter of time.

Nonetheless, concerns remain that North Korean measures could create the conditions for an accidental outbreak of fighting.

Trial clouds election, Page 4

# Argentines wrestle with new misery of deflation

By David Pilling in Buenos Aires

Argentines, survivors of two recent bouts of hyperinflation, are coming to grips with a new source of misery – deflation.

Retail prices dropped 0.6 per cent in the first quarter of 1996, and the increase over the 12 months was a mere 0.2 per cent.

The government announcement last week, which prompted media boasts that Argentina now had the world's lowest inflation rate, was almost apologetic in tone, in sharp contrast to the public joy shown when the country overcame bouts of hyperinflation in 1989 and 1991.

"The reason for deflation is that no one has a bean to spend, no one takes a taxi, no one is buying anything," said Mr Ricardo Castro, a 56-year-old construction site manager who has not found a job in his field for 6½ years.

Deflation for Mr Castro is merely the flip side of a recession that saw the economy contract by 4.4 per cent last year, bringing the jobless rate to nearly one in five. "Businesses are lowering prices because, if they don't, they'll go to the wall," he said. "That's how we see it, those who are suffering this thing."

According to Mr Marcelo Zlotogwiazda, writing in Pagina/12 newspaper, the government is beginning to regard its much-vaunted price stability as something of a liability, a "mirror of crisis".

Many economists disagree. Argentina's rigid monetary system, in which devaluation is prohibited by law, needs to squeeze wages and prices in order to make exports internationally competitive, they argue.

Mr Domingo Cavallo, economy minister, concedes deflation could delay recovery – because people might be encouraged to postpone purchases – but argues it also reflects greater price competition and consumer choice in a newly deregulated economy.

"Somebody who wants to buy a car now has many choices," said Mr Cavallo, explaining the 30 per cent drop in car sales last year. "So he shops around and looks for the best-quality car and the lowest price. It takes longer to decide, because in any case his money is not being destroyed by inflation. In the past, he purchased any car at any price as soon as he had the cash."

Mr Wilbert Surco, whose family owns a corner shop in the Buenos Aires district of San Telmo, argues he was better off in the days of fast rising prices when "at least people earned more or less decent wages".

But he also remembers with a shiver the dark days of 1989 when his wages were wiped out and people stormed supermarkets in search of food. "Stability does count for something," he admits. "At least it allows you to plan ahead a little."

# French bank's longer hours

Continued from Page 1

banks such as the large Crédit Agricole. It is also a measure of the pressure that Mr Jean Peyrelevade, the Crédit Lyonnais president, is putting on his staff to agree desperately needed productivity improvements.

Crédit Lyonnais recorded only a symbolic FFr13m ($2.55m) net profit last year after being rescued twice by the government in 1994-95. It is still baulking at the large asset sales it is supposed to make as a condition of those bail-outs.

On a wider plane, the Crédit Lyonnais accord will encourage the centre-right government and socialist opposition to pursue reductions in working time in order to create new job slots.

The government once derided this as artificial "work sharing", but now excludes no option in its desperate quest to lower the country's 11.8 per cent jobless rate. Last week prime minister Alain Juppé invited former Socialist prime minister Michel Rocard for talks on the latter's ideas for reduced working time.

Crédit Lyonnais' partial accord with the unions, reached on Friday night, may create about 150 jobs. But this would not stop overall employment at the bank shrinking for the next three years, Mr Peyrelevade said.

# Sinn Féin may take part in elections to Ulster peace forum

By John Murray Brown in Dublin and George Parker in London

Sinn Féin, the political wing of the Irish Republican Army, signalled yesterday that it might contest next month's elections to a peace forum, raising hopes that proposed all-party talks on the future of Northern Ireland will go ahead in June.

Mr Martin McGuinness, Sinn Féin's chief negotiator, said the organisation was likely to participate if the mainly nationalist Social Democratic and Labour party decided to take part.

"We actually believe that the best way forward for the nationalist community is for the nationalist political representatives not to participate in the election or the elected body," he said.

"But the SDLP is a party in its own right, and if they decide to contest the elections, then I'm certain that Sinn Féin will do likewise," he told BBC radio.

Mr McGuinness, who earlier said he would seek SDLP support for a boycott of the polls, insisted Sinn Féin had a right to take part in the talks whatever the IRA did. The British and Irish governments have said Sinn Féin cannot take part unless the IRA restores its ceasefire.

Mr McGuinness said his party was willing to play its part in helping to bring about a fresh ceasefire.

Mr Jonathan Stevenson, the SDLP chairman, said his party wanted to see the legislation on the elections before deciding whether it would take part in them.

"We will wait to see whether we can move immediately and without further preconditions to all-party talks," he said. "If we can, then the chances are that we will take part in the elective process – reluctantly, because it is a bit of a dog's breakfast."

Meanwhile, Ulster's annual marching season got off to a violent start yesterday as loyalist demonstrators clashed with police in south Belfast.

The province now faces a tense period, culminating in the loyalist commemorations on July 12 marking the defeat of the catholic King James II by forces loyal to King William, his protestant successor, at the Battle of the Boyne in 1690.

# New technology 'will boost oil production'

Continued from Page 1

included more accurate seismic images of oil fields, advances in drilling techniques and a new generation of robust sensors and valves capable of operating permanently at the extreme depths, pressures and temperatures of modern oil wells.

These would have to be supported by sophisticated software and powerful computers. Schlumberger has close links to Intel, the world's biggest maker of computer chips, from which it receives regular batches of the latest experimental devices. The company has also bucked industry trends in recent years by maintaining research and development spending. .

Mr Baird said the prospect of permanently placing a wide range of sensors in oil wells should enhance productivity. by allowing oil companies to take early action to prevent them from drying up.

"The key thing is to prevent wells from dying. With permanent downhole sensors we will know when it is starting to develop the flu, when it is close to getting bronchitis and when it is about to die."

## THE LEX COLUMN

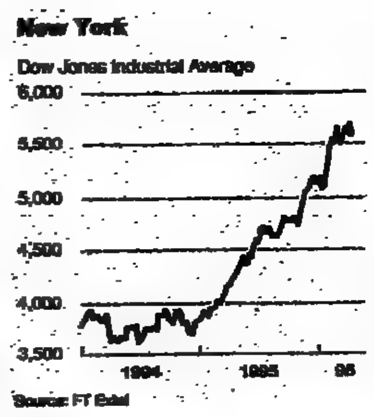
# Telecom tangles

Why is the global telecoms industry swept up in a frenzy of deal-making? The single most important reason is the disintegration of the international phone cartel. Until now, telecoms operators have normally kept rigidly to their monopoly territories. With an international call, one operator carries it half-way – sometimes to the middle of an ocean – where another picks it up. The complex financial arrangements used to divvy up the revenue makes international traffic the most profitable part of the industry.

But, as markets are opened to competition, the more aggressive operators are sorely tempted to invade each other's patches. Where possible, they want to handle both ends of the call. The most far-sighted know competition will slash call prices; but they may still make good money if they can benefit from the industry's vast economies of scale. Hence, the urge to create supercarriers. If BT merges with Cable & Wireless, it will carry around 4.5bn minutes of international traffic a year. Add in BT's US ally MCI and the total rises to 8bn – the same as AT&T, the world leader. The same logic applies to last week's $50bn merger between SBC and Pacific Telesis; half of all US calls to Mexico originate in the two Baby Bells' territories.

The merger boom is likely to accelerate. First, because liberalisation is gathering pace. Second, because deal-making creates a momentum of its own. Other Baby Bells will feel the pressure to mimic SBC/PacTel. And if BT merges with C&W, there could be a domino effect – not least because Mercury, C&W's UK arm, will come up for sale.

## US equities




For the second month in a row, the US non-farm payroll figures have knocked the stuffing out of world equity markets and brought out the usual band of soothsayers predicting the end of the bull market. But such predictions look premature. The resurgence of the US economy has been reflected in a near 100 basis point increase in 30-year benchmark bond yields during 1996. Hopes of another interest rate cut have evaporated, and this is written into share prices. But while economic activity has been stronger than pundits had been expecting in early January, it is not that strong; and a rate rise remains a distant prospect.

The US equity market has been going through a process of adjustment throughout the year. Defensive, or yield sensitive, stocks such as utilities and insurance companies have weakened, but the slack has been taken up by the cyclical sectors, where earnings growth prospects are improving. This trend should continue.

In 1994, US equities withstood a 200 basis point rise in long bond yields, and the bull run should be able to survive further weakening in bonds. After all, the differential between bond and equity yields remains comfortably at the low end of the historic range. While markets will clearly be sensitive to any signs of inflation, equities are underpinned by two phenomena: the weight of mutual fund cash looking for an investment home and growing corporate cash flows. The corporate sector will continue to plough cash into share buy-backs and mergers and acquisitions. And as the pace of M&A activity continues, equities should regain some of their lustre.

## German demergers

Hoechst has admitted that doing the splits would make sense. Bayer has decided against it. Meanwhile, at Thyssen, the new supervisory board chairman shocked his chief executive last week by publicly suggesting a three-way separation of the steel, engineering and trading group. None of these companies has fully embraced the idea of a demerger, but at least they are thinking about it. In a country where diversified holding companies dominate the corporate landscape this is a big step forward. On top of the introduction of executive share options at Daimler-Benz and Deutsche Bank, it shows the concept of shareholder value gaining ground.

A demerger may not be appropriate in every case. But where there is a hidden jewel to unlock, it can create considerable value. Thyssen and Mannesmann, which both own embryonic but rapidly growing telecoms operations, are potential examples of this. The computer service operations of Daimler-Benz's Debis unit may be another. Separating businesses brings greater focus and makes joint ventures easier. It forces management to work harder by removing the veil of membership of a larger group. Shareholders also benefit if one of the demerged divisions attracts bid speculation.

Tax problems, often raised as an objection, do not appear insurmountable. And investors should give short shrift to the argument that diversification reduces risks and smoothes earnings. At Thyssen, losses on the steel side between 1992 and 1994 swamped profits elsewhere. Investors can balance risks more easily and cheaply on the stock market than company managements can on the ground.

## Spirits

The spirits sector has underperformed the UK market by 45 per cent over the past four years, as liquor prices were slashed in the face of dwindling demand. But after numerous false dawns, the tide is turning. This year, the bulk of the largest spirits producers have started reining in discounts and pushing list prices upwards. Of course, Rémy Cointreau increased cognac prices sharply in China last year, only to see sales slump. And discounting against listed prices remains a core part of the sectors' so-called "promotional expenditure". Nonetheless, now that the big names are all having a go, price increases look set to stick.

The knock-on effects could be dramatic. For Guinness, the impact of a 2 per cent price increase is more than £40m of operating profits, and Grand Metropolitan would do better still. Furthermore, a continuing process of restructuring and cost cutting is funding increased expenditure on advertising, in turn helping to promote some increase in sales volumes. This is happening while the sector has sunk to a discount rating against the market.

The background of stagnant demand in developed markets – reflecting health concerns more than economics – argues against a return to the heady ratings of the early 1990s. And it will be some time before improving market conditions feed through to profits. None the less, the stocks look cheap. Guinness offers the best value, due to its emerging markets exposure. And Allied Domecq looks the most expensive. Its shares have been helped by the approaching sale of Carlsberg-Tetley. But incoming chairman Sir Christopher Hogg has much more to do before he can transform the sector's ugly duckling.

## FT WEATHER GUIDE

### Europe today

Most of Europe will have frequent sunny periods with warm spring temperatures. Southern France, Spain and Portugal will have fine spring conditions with temperatures between 20C and 25C.

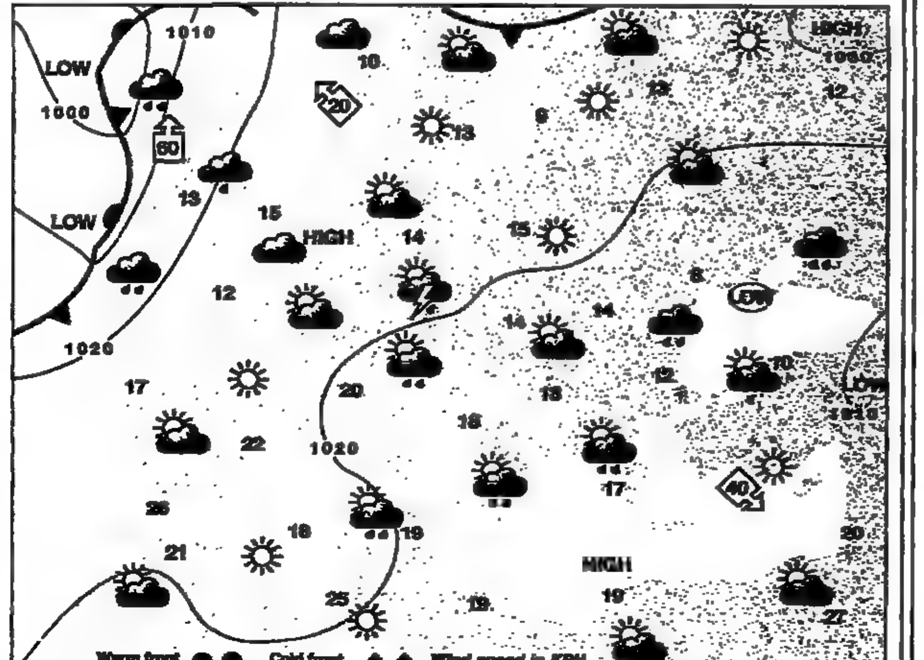
A zone of cloud from Germany to the French Alps will mark the boundary between mild spring conditions centered on Poland and cooler air near the Benelux and Britain. This zone will have occasional rain and thundery showers.

During the afternoon cloud will increase over Ireland. Elsewhere in the British Isles there will be sunny periods.

A low over the Black Sea will direct cool air into south-eastern Europe bringing showers and temperatures ranging from 10C in northern Turkey to 19C in southern areas.

### Five-day forecast

A persistent high over Scandinavia will bring dry conditions to most of Europe. Western and central areas will be spring-like with temperatures between 12C and 17C. Western France and the British Isles will become unsettled. Spain and Portugal will also have some rain and thundery showers in the latter half of the week.




Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

**TODAY'S TEMPERATURES**

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | sun | 33 |
| Accra | fair | 32 |
| Algiers | fair | 19 |
| Amsterdam | fair | 12 |
| Athens | fair | 17 |
| Atlanta | fair | 16 |
| B. Aires | cloudy | 29 |
| B.ham | fair | 14 |
| Bangkok | shower | 37 |
| Barcelona | sun | 17 |
| Beijing | fair | 12 |
| Belfast | cloudy | 14 |
| Belgrade | fair | 16 |
| Berlin | fair | 16 |
| Bermuda | rain | 20 |
| Bogota | fair | 19 |
| Bombay | fair | 34 |
| Brussels | cloudy | 13 |
| Budapest | fair | 16 |
| C.hagen | fair | 11 |
| Cairo | sun | 24 |
| Cape Town | fair | 21 |
| Caracas | sun | 26 |
| Cardiff | cloudy | 13 |
| Casablanca | fair | 23 |
| Chicago | fair | 5 |
| Cologne | fair | 15 |
| Dakar | sun | 26 |
| Dallas | sun | 26 |
| Delhi | sun | 33 |
| Dubai | sun | 33 |
| Dublin | cloudy | 13 |
| Dubrovnik | fair | 17 |
| Edinburgh | cloudy | 14 |
| Faro | fair | 21 |
| Frankfurt | fair | 16 |
| Geneva | fair | 16 |
| Gibraltar | fair | 20 |
| Glasgow | drzzl | 14 |
| Hamburg | cloudy | 15 |
| Helsinki | sun | 13 |
| Hong Kong | rain | 25 |
| Honolulu | fair | 30 |
| Istanbul | cloudy | 12 |
| Jakarta | cloudy | 33 |
| Jersey | fair | 14 |
| Karachi | sun | 34 |
| Kuwait | sun | 37 |
| L. Angeles | sun | 20 |
| Las Palmas | sun | 23 |
| Lima | cloudy | 22 |
| Lisbon | sun | 21 |
| London | fair | 15 |
| Lux.bourg | fair | 14 |
| Lyon | fair | 17 |
| Madeira | fair | 20 |
| Madrid | fair | 22 |
| Majorca | fair | 18 |
| Malta | shower | 18 |
| Manchester | cloudy | 14 |
| Manila | shower | 32 |
| Melbourne | shower | 18 |
| Mexico City | cloudy | 22 |
| Miami | shower | 28 |
| Milan | shower | 17 |
| Montreal | snow | 1 |
| Moscow | sun | 13 |
| Munich | cloudy | 11 |
| Nairobi | thund | 26 |
| Naples | shower | 17 |
| Nassau | shower | 29 |
| New York | rain | 8 |
| Nice | fair | 18 |
| Nicosia | sun | 18 |
| Oslo | sun | 10 |
| Paris | fair | 15 |
| Perth | sun | 31 |
| Prague | fair | 15 |
| Rangoon | fair | 37 |
| Reykjavik | cloudy | 8 |
| Rio | fair | 27 |
| Rome | fair | 18 |
| S. Frsco | fair | 17 |
| Seoul | sun | 15 |
| Singapore | cloudy | 32 |
| Stockholm | sun | 14 |
| Strasbourg | cloudy | 16 |
| Sydney | shower | 22 |
| Tangier | fair | 24 |
| Tel Aviv | sun | 21 |
| Tokyo | sun | 15 |
| Toronto | sleet | 3 |
| Vancouver | shower | 14 |
| Venice | fair | 18 |
| Vienna | fair | 14 |
| Warsaw | sun | 13 |
| Washington | cloudy | 7 |
| Wellington | rain | 19 |
| Winnipeg | fair | 10 |
| Zurich | thund | 14 |





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FINANCIAL TIMES
# COMPANIES & MARKETS





Tuesday April 9 1996

## List of potential suitors for Mercury lengthens

By Alan Cane in London

The list of potential buyers for Mercury Communications, chief domestic rival to British Telecommunications, is lengthening as negotiations which could lead to a merger between BT and Cable and Wireless intensify.

Many of the world's larger telecoms operators, as well as a number of independent consortia which are seeking finance to fund the purchase, are included.

Stet, the Italian state-owned telecoms group, and Deutsche Telekom are independently considering Mercury as a base for their ambitions in the UK. At least two separate consortia, one comprising a number of US and European investment companies and the other a group of senior telecoms executives, are also planning bids.

Both consortia are believed to see Mercury as the centrepiece of an alliance with the UK's cable operators which could mount an effective challenge to BT.

Cable and Wireless holds an 80 per cent stake in Mercury, the remaining 20 per cent being held by BCE, the Canadian telecommunications group which owns Bell Canada.

An inevitable regulatory consequence of a merger between BT and C & W would be the disposal of Mercury and Mercury One-2-One, the mobile phone company in which C & W and US West hold equal stakes.

The prize for the buyer would be a bridgehead in the UK's fast evolving business telecoms market. AT&T is an obvious candidate but it has refused one offer on price grounds. It is furthermore, heavily committed to its own reorganisation and to protecting its home territory following the liberalisation of the US telecoms market.

Deutsche Telekom, the largest European telecoms operator, is BT's preferred choice and has discussed the prospect in informal talks with BT.

The position of BCE, Mercury's minority shareholder, is unclear. A condition of purchase of its 20 per cent stake in Mercury was that BCE and C & W were prevented from buying further shares in each other's business for five years.

Meanwhile, Mr Peter Howell-Davies, Mercury's managing director, has announced a new management structure including the appointment of two top managers from Bell Canada. He said last week after two days of discussions with managers and sales staff that morale was good.

He pointed out, however, that although the industry regulator would insist that a stronger, more competitive Mercury emerged as a result of a BT/C & W merger, the uncertainty was not helping relations with prospective customers. In November, Mercury published interim results showing operating profits of £103m ($156m) on revenues of £833m.

Lex, Page 18

## INSIDE

### Chrysler

The US carmaker has agreed to sell its defence electronics and airborne systems businesses to Raytheon for $475m, marking what is likely to be the largest of the disposals it promised when reaching a truce with Mr Kirk Kerkorian, the company's biggest shareholder, in February. Page 21

### Signet

CINVen, the UK venture capitalist, has emerged as a bidder for Signet's UK jewellery chains, H. Samuel and Ernest Jones. It has also been confirmed that Argos, the catalogue retailer, is among the bidders, which are thought to number seven. Mr James McAdam (above), chairman, has said he would only sell "if the price was right". Signet is thought to be seeking about £300m ($456m). Page 20

### Fund Management

Corporate governance is becoming an issue of pressing concern in the Netherlands as pension funds redefine their role as shareholders in the country's companies. But it is not clear that either shareholders or companies are prepared to adopt the muscular approach to corporate governance which has characterised US investors. Page 23

### Faces

Mr Tony Houghton, partner at Deloitte & Touche, the UK accountancy firm, is packing his bags for Riga for one of this year's most exotic liquidation assignments – Latvia's Bank Baltija. Mr Houghton and his colleague Mr David Berrey, director of Deloitte's Latvian practice, were appointed liquidators of Baltija last week by the Riga regional court. Until its collapse last year, Baltija was the biggest bank in the Baltic republics. It is reputed to owe more than $400m. Page 23

## Komatsu to spend Y20bn on buy-back

By William Dawkins in Tokyo

Komatsu, the world's second largest producer of construction equipment, yesterday became the latest in a queue of cash-rich Japanese companies to buy back its own shares.

The group said it would spend up to Y20bn ($189m) on buying and then liquidating its own shares, representing about 2 per cent of the total at the current price, after seeking shareholders' approval at the annual meeting in June.

The move, popular in the UK and US but until recently prohibitively expensive in Japan, is intended to support the share price by reducing the number of shares available. Komatsu wants to lift its return on equity, targeted at 2.6 per cent in the fiscal year just ended, to 8 per cent in 1998.

This comes less than a week after Toyota, Japan's top car producer, announced plans to buy up to Y100bn of its shares. It was the country's largest buy-back and was seen as setting the fashion.

Buy-backs are welcomed in Tokyo because they help to reduce the oversupply of shares and equity warrants created during the 1980s.

Buy-backs were, however, unpopular in Japan until last year, when the finance ministry suspended its disapproval of them and shelved a shareholder tax which had been put in place as a disincentive.

Previously, shareholders who elected not to sell their stocks back to the company were taxed on the increase in their investment's value deemed to have occurred after the buy-back. That tax has been frozen until March 1999.

Companies have been eager to take advantage of this new freedom, partly because they are better able to afford it. Corporate cash flow is positive, and many, including Komatsu, are sitting on piles of cash which they are unwilling to invest with the domestic market growing modestly.

Komatsu reported Y115bn of cash at the end of September last year. That has probably grown since then, given that the group is expected to make a profit, before tax and extraordinary items, of Y18bn in the year to end-March, up from Y16.68bn.

Japan's record low interest rates have been another incentive for Japanese companies to buy their own shares. With the official discount rate at a low of 0.5 per cent, many companies are in the unusual position of paying more to shareholders in dividend yields than they pay the bank in debt interest. This is a clear incentive to exchange equity for debt.

### Shareholder rights plans are under scrutiny as corporate America searches for an antidote

## US grows sick of its anti-takeover device

In boardrooms across corporate America directors are asking themselves a burning question. "Should we renew our poison pill?"

If they do, they risk antagonising shareholders who are taking up the issue once more after their interest waned in the first half of the 1990s. But if they do not, they may be opening their companies to a hostile takeover in an increasingly active merger market.

The decision on March 28 by Chrysler to revise its poison pill so that it would not be triggered if the group received a fully-financed, all-cash bid, deemed to be at a fair price by an investment bank, may become the middle road directors can follow. The Chrysler moves echo those made by some other companies.

The shareholder rights plan, as the anti-takeover device is officially called, was invented by Mr Martin Lipton, a top takeover lawyer, in the mid-1980s.

After a couple of dozen companies adopted them in 1985, a flood followed in 1986 as the number of hostile bids surged in the mid-to-late 1980s and companies sought ways to protect themselves. Now two-thirds of the companies in the Standard & Poor's 500 index have rights plans.

Since most plans have a 10-year life, many are due to expire this year. According to figures from Securities Data Company, there are hundreds of companies with poison pills up for renewal this year or next.

Already more than 100 companies have either renewed existing pills or adopted new ones this year.

Yet, although the shareholder rights tag implies pills are good for investors in a target company, many institutional shareholders are questioning the merits of poison pills.

The poison pill has changed little over the years. They are cheap and simple to put in place – it is a matter of lawyers and corporate financiers customising an off-the-shelf legal document – and a board can adopt one without shareholder approval.

Pills work to an acquiring company's disadvantage usually by allowing investors in a target company to buy more shares in it at a large discount, often 50 per cent, or to buy shares in the bidding company, again at a sizeable discount. Either makes a takeover bid prohibitively expensive.

A pill would generally be triggered if one shareholder's stake rises above a certain percentage, often 20 per cent, but increasingly a lower percentage.

The pill is such an effective deterrent that: "I do not believe one has ever been triggered," says Mr Frederic Escherich, managing director in J.P. Morgan's mergers and acquisitions group.

Mr Escherich says he cannot recall an instance when a properly financed bid has been defeated solely because of a poison pill.

When a takeover does come, the pill forces the bidder to negotiate with the board of the target company, since only the board of a company can remove a pill. It gives the target company a chance to gather its defences before a bidder has built a stake larger than the trigger percentage.

Mr Escherich has examined 245 takeovers of more than $500m completed in the US between 1988 and 1995. "This analysis shows that the median takeover premium at firms that have a poison pill in place is nearly 16 per cent higher than for companies that do not have one."


That would suggest shareholders should be in favour of poison pills. Yet many are against, and the issue is being raised by a number of institutional investors.

Their concern was shown recently when investors in Baker Hughes, an oil, gas and mining services company, voted overwhelmingly to ask the board to redeem or put to a vote its shareholder rights plan. Corporate governance experts believe that Fidelity, the large mutual fund group, was a leading Baker Hughes shareholder to vote against the company's management on the issue.

Shareholders' opposition stems from a belief that the adoption of a pill depresses a company's share price, makes a takeover less likely and allows poor management to become entrenched. They particularly dislike the 10-year life of most pills, and suggest they should be shortened.

Some investors suggest that Hasbro's poison pill helped it fend off a bid from Mattel, in the battle of the toy companies earlier this year.

The Council of Institutional Investors, a corporate governance activist group, calls for companies to seek shareholder approval for a rights plan. Last year, the council wrote to a number of companies whose pills were due for renewal, asking what they planned to do. Most companies responded by saying they intended to renew the pills.

However, shareholder activism has persuaded some companies to drop their rights plans.

Kmart, the troubled retail group, redeemed its poison pill in April last year. Earlier, it had brought forward its end from 1998 to 1995 shortly after Mr Joseph Antonini, chief executive, resigned under pressure from shareholders.

In March last year, Philip Morris, the tobacco and food group, redeemed its poison pill under pressure from shareholders led by the Teamsters pension fund, which has also persuaded other companies to redeem pills.

The Council of Institutional Investors says that 45 per cent of propositions filed this year by its members – who have $900bn in assets in aggregate – have dealt with poison pills. Meanwhile, the Investor Responsibility Research Centre, another corporate governance group, reports that its annual survey of investors shows a high level of opposition to poison pills.

Even so, investment bankers continue to advise companies to renew existing pills or adopt one if they do not have one in place.

In cases where investors fear the pill is a device to entrench existing management, companies are often advised to add features to calm their fears, such as the Chrysler qualification. If even that would be too much for shareholders, directors can at least prepare a shareholder rights plan so it can be put in place rapidly if a hostile bidder appears.

Mr Escherich draws a parallel between the poison pill debate and that over gun control.

In the right hands, he says, a poison pill is safe. Shareholders who fear their company's directors are unsafe with a poison pill generally have more pressing gripes with their boards such as composition, compensation and poor performance. In such cases, shareholders have more to argue about than a poison pill.

**Maggie Urry**

## Volvo confirms US commitment

By Haig Simonian, Motor Industry Correspondent

Volvo, the Swedish cars and trucks group, remains commited to its $500m (£329m) US investment programme in spite of a 36 per cent drop in North American truck sales in the first quarter.

Mr Karl-Erling Trogen, president of Volvo's truck division, said it would continue its US spending "to create an overall healthy profits base".

Like Mercedes-Benz and Renault, the two other European truckmakers in the US, Volvo has suffered from poor profitability since acquiring production capacity in the US.

The investment would be used to develop new products and restructure the group's North Carolina plant, he said. The main aim was to share more common parts between the Swedish group's US, European and South American truck ranges.

The steep decline in Volvo's North American sales this year has exceeded even the most pessimistic recent forecasts, which have predicted falls of between 25 and 30 per cent in the Class 8 market for trucks over 15 tonnes as demand falters after the market reached a peak in 1995.

Mr Trogen said such short-term economic cycles would not deter Volvo from investing heavily until the turn of the century to expand its international coverage. The group is spending $150m to raise output and build a cab facility in Brazil. Another $80m is earmarked for a joint venture to build up to 4,000 trucks a year in India.

Mr Trogen said Volvo was now selecting a short list of possible sites in India. He said the formal investment decision would be taken shortly.

Karl-Erling Trogen: wants a healthy profits base in US

Meanwhile in China, the company is planning to build up to 12,000 trucks a year with a local partner. Mr Trogen said the project description had been approved by the Chinese authorities, and Volvo was now working on a detailed feasibility study.

The Indian and Chinese ventures will form a new axis for Volvo in the buoyant Asian market.

"It is my mission to establish a regional base in Asia," Mr Trogen said.

In Europe, by contrast, the group's focus will be on introducing a small, 7.5-tonne truck this year. Mr Trogen confirmed the new model would be revealed this year.

The lighter truck has been eagerly awaited by dealers, which say they need a range of vehicles from 7.5 tonnes for their big customers with mixed transport needs.

However, Volvo's previous attempt to break away from its heavy vehicles with a lighter product was poorly received.



## Digital phone usage surges

By Paul Taylor in London

A sharp decline in the price of digital cellular mobile phones and improvements in coverage helped lift the number of cellular subscribers in western Europe by more than 60 per cent to almost 23m at the end of 1995.

According to Dataquest, the market research firm, the number of cellular subscribers in western Europe increased by 8.51m to 22.6m last year representing a penetration rate of 6 per cent.

Mr Adam Zolden, author of the Dataquest report, notes the number of new subscribers was equivalent to 2.3 per cent of the population maintaining cellular telephony's position as one of the fastest growing segments of the information technology industry.

Last year was also the first year that saw more additions to digital networks than to the older style analogue networks. Sixty-six per cent or 5.5m of the new subscribers were to digital networks based on the GSM (Global System for Mobiles) or DCS-1800 standards. Given that 43 per cent of all European subscribers now use a digital network, this year is expected to be the first year when there are more digital than analogue subscribers.

The Dataquest numbers underline the speed of the switch from analogue systems to digital networks. Analogue additions fell from 800,000 in the first quarter to less than 600,000 in the fourth quarter, while digital additions reached 2.1m in the final quarter, from 860,000 in the first.

The UK, Italy, Germany and Sweden remained the four largest markets and accounted for almost two-thirds of both the European subscriber base and new subscribers. Norway, Sweden and Finland all topped 20 per cent penetration, with Norway reaching 25 per cent after a price war.

Among the digital networks those in Germany, France and Sweden added the most subscribers with Germany topping the list with over 1.1m additions. Following the licensing of operators in Belgium, Austria and Ireland, all the main European countries now have at least two licensed or commercial GSM operators.

Telephone handset shipments rose 51 per cent last year with Motorola of the US, Nokia of Finland and Ericsson of Sweden continuing to account for two-thirds of these.

## COMPANIES AND FINANCE: UK

# CINVen to bid for Signet's UK chains

By Simon Kuper

CINVen, the venture capitalist, has emerged as a bidder for Signet's UK jewellery chains. The company is thought to be acting on its own account, with Mr Graham Keniston-Cooper, a director, leading its bid for the H Samuel and Ernest Jones chains. CINVen has refused to comment.

It has also been confirmed that Argos, the catalogue retailer, is among the bidders, which are thought to number seven.

Signet has offered its UK arm for sale under pressure from rebel preference shareholders owed £100m in unpaid dividends. The group has debts of £350m.

Early this week Signet will tell the interested parties which of them have been shortlisted. It is possible that no bid will meet the asking price, thought to be about £300m. Mr James McAdam, Signet chairman, has repeatedly said he would only sell "if the price was right". One potential bidder is said to have been stunned at the amount of money being demanded.

Goldsmiths, the jeweller, has said it would prefer to take only the Ernest Jones chain. It hopes to form a consortium with another bidder, expected to be Argos, whereby it would take Ernest Jones and Argos would take H Samuel. Goldsmiths is known to have venture capital backers, including Apax Partners and Schroder Ventures.

However, analysts have questioned the wisdom of splitting the two chains. They say Signet achieves savings from sharing some of the chains' warehouses and brands.

There is speculation that Apax would buy both chains for Goldsmiths, take the company private, and then refloat it after about two years. Goldsmiths' market value is £66m.

Mr Jurek Piasecki, Goldsmiths chairman, chief executive and largest shareholder, has a long relationship with Mr Jon Moulton, the Apax director backing his bid for Signet. In 1988, when Mr Moulton was a Schroder Ventures director, he backed Mr Piasecki's £30m management buy-out of Goldsmiths from Oriflame, the Swedish cosmetics group. Goldsmiths refloated in 1990.

Mr Stephen Hinchliffe, the entrepreneur who has quickly built Facia into one of the UK's largest retail chains, has ruled himself out of the bidding.

# Rentokil undecided on raising BET bid

By Geoff Dyer

Rentokil, the industrial services group, said yesterday that it had not made a decision about whether to raise its hostile takeover £1.9bn bid for rival BET.

The group was responding to reports over the weekend that it was prepared to lift its 204½p cash and paper offer by a further 10p.

Rentokil has until Friday to decide whether to raise the offer, declare the existing one final or let it lapse. It is not expected to make its final decision until then.

Mr Clive Thompson, Rentokil's chief executive, begins a round of presentations to BET institutional shareholders today and the decision about the offer will depend in part on the reception he receives.

BET's chief executive, Mr John Clark, will also be meeting institutions this week to state the group's case for remaining independent.

Rentokil is offering nine new shares and £8 in cash for every 20 BET shares.

At close of trading on Thursday, BET shares were up 1½p at 207p and Rentokil shares were 6½p higher at 368½p.

# Investors fear there's only one Man United

## Football shares have a new popularity. Patrick Harverson and Simon Kuper report

Spring is in the air and the stock market's romance with football is blooming.

Only a few years ago, the tiny handful of listed clubs tended to be regarded in the City as high-risk investments, best left to diehard fans with more money than sense. The professional investors stayed well away.

Mr Nigel Hicks, leisure analyst at Panmure Gordon, says: "Fund managers didn't want to hold the stocks because trustees would ask, 'What the hell are you doing holding a football club?'"

Today those same investors seemingly cannot get enough of football club shares.

Last week three directors of Manchester United sold 2.7m shares, and such was the pent-up demand from institutions for the club's stock that the sales were completed without lowering the share price from its all-time high of 292p.

A few days later, the small but growing band of football clubs on the stock market welcomed a new addition in Chelsea Village, the company which owns Chelsea football club. In the first two and a half days of trading more than 6m of the 9m shares available were snapped up as demand pushed up the price from the introductory 55p to 60p.

A few days before Chelsea's debut, shareholders in West Bromwich Albion had voted to float the Midlands club and increase the number of football clubs quoted on the stock market to seven.

That list will almost certainly lengthen in the coming years. Several of the sport's biggest names, such as Arsenal, Everton, Liverpool and Leeds United, may well go public soon. When Leeds looked into a flotation last summer it was told by its financial advisers that there was probably room for three or four more big clubs on the stock market.

Mr John Sedgwick, Tottenham Hotspur's finance director, says: "Football clubs will become a sub-sector on the stock market within five years." Several clubs' shares are already available on a limited basis via Ofex, the service which matches buyers and sellers in shares of companies not quoted on the established stock market.

Such has been the interest in the sector that shares in the three clubs on Ofex have risen sharply. Between mid-February and mid-March, Arsenal rose 14 per cent, Manchester City 19 per cent (despite the club's poor performance on the field) and Rangers, of the Scottish Premier league, jumped 25 per cent.

Although most shares on Ofex are held by only a few investors and are thus susceptible to volatility, the recent gains seem part of a broader pattern.

Celtic, quoted on the Alternative Investment Market, saw its shares jump 38 per cent in the same period while even the shares of lowly Preston North End rose 7.5 per cent in March. The biggest quoted clubs, Manchester United and Tottenham, have also enjoyed exceptional gains since the start of the year. Only Millwall, the struggling first division club, has failed to cash in.

Behind the surge in demand has been a shift in investor attitudes to the sport. Football can now be described as a high-growth leisure sector. At least it can at the top of the game, where the big Premiership clubs congregate.

Huge sums of money from the sale of television rights, grants for stadium redevelopment and greatly increased revenues from merchandising and other commercial activities have helped football re-invent itself.

Market is his goal: Andy Hunt, right, of West Bromwich takes on Sheffield United's Roger Nielson

Mr Hicks points to the quality of the new earnings. "A very large proportion of Man U's revenues – shoe contracts, TV deals and so on – are guaranteed years in advance." Few retailers can say the same.

Mr Sedgwick says: "We're not so reliant on gate receipts now, or even on the performance of the football team."

Life inside the grounds has changed too. Violent crowds standing on crumbling terraces in tatty grounds have been replaced by well-behaved, more prosperous spectators sitting in modern stadiums. In the past, said Mr Paul Wedge of Collins Stewart, house brokers to Tottenham, "it took you half an hour to go for a pee and all you could get to eat was an old sausage roll." Now many clubs offer banqueting facilities.

And sportswear manufacturers, corporate advertisers and television broadcasters have created a new, glossy image for the game built around glamorous foreign and home-grown stars. It has become fashionable to like football.

Institutional investors are finally waking up to these changes, and want a piece of the increasingly lucrative action. Even the notoriously conservative Scottish investment community is taking an interest. This week a group of senior Manchester United executives travelled to Scotland to promote the club to local institutions and received a warm welcome.

But the boom could end. "The risk always is that a club gets a listing and doesn't perform because it doesn't succeed with its transfer policy," says Mr Sedgwick. Also, players' salaries are rising fast.

Mr Wedge says only about a dozen British clubs are large enough to impress the stock market. "I don't think Tranmere Rovers, say, would be a very attractive investment.

Mr Hicks adds: "There's only one Man United."

How times have changed since its flotation in 1991 when less half the shares on offer were taken up.

# VCR's US buyer plans growth

By Roger Taylor

Venture Capital Reports, the UK's leading business angel introduction agency, has been bought by Mr David Amis, a US entrepreneur, who plans to expand the operations overseas.

VCR publishes newsletters and organises seminars to help raise money from private investors, called business angels, for companies which are too small to apply for traditional sources of equity finance, such as venture capitalists.

Although VCR is a small business – over the past 18 years, it has raised about £16m for 184 companies – it has been very influential. Mr Amis describes VCR as "the most profitable and successful company of its kind in the world" and adds: "The UK is by far the most advanced country in their approach to this type of business".

## WEEKEND SHARE WATCH

A digest of Saturday and Sunday comment on UK companies

### ■ Lonrho

Lonrho was unavailable for comment on a story in the Sunday Times that Anglo American wants to secure an option over the 18.5 per cent stake held by Mr Dieter Bock, Lonrho's chief executive. The Financial Times reported three weeks ago that Mr Bock had given the South African group first right of refusal on his holding should he sell. Anglo has said it has no plans to bid for Lonrho as a whole.

### ■ Greycoat

Greycoat, the property group, has pulled out of the £165m sale of its biggest asset to a Deutsche Bank investment fund, the Observer reports. The buildings, at 123/151 Buckingham Palace Road, account for 40 per cent of the company's portfolio. There was no comment from the company. "A serious approach" for the properties was first reported last month.

### ■ Amec

Amec, the construction group, is expected to announce the £170m sale of Fairclough, its housing subsidiary, when it reports full-year figures on Thursday, according to The Mail on Sunday. News of restructuring has been expected for some time but the company was unavailable for comment on speculation that Beazer Homes, Redrow, Wilson (Connolly) or Taylor Woodrow would be the buyer. Sir Alan Cockshaw, the chairman, said last year that sustained recovery in the private housing market was unlikely while consumer confidence remained fragile.

### ■ Eurotunnel

Refinancing talks between Eurotunnel and its 225 banks are unlikely to be completed before the autumn, according to a report in The Sunday Times. Negotiations over Eurotunnel's £8bn debts have missed the company's initial March deadline and bankers have said there was little sign of breaking the deadlock.

# PowerGen in Indian power station deal

By Roger Taylor

PowerGen, the UK's second largest electricity generator, is part of a consortium which has won a contract to build and operate a £460m power station in the Indian state of Gujurat.

PowerGen is investing about £30m giving it a 20 per cent stake in the project. The other members of the consortium are Siemens, the German engineering group which will build the station, and two Indian companies, Torrent Group and the Gujurat Power Corporation.

The deal is backed by an agreement from the state of Gujurat to buy electricity from the new station for 20 years.

This is the first large Indian electricity project agreed with Western companies since the $2bn (£1.3bn) Dabhol project ran into difficulties. Confidence was damaged last year when the state government of Maharashtra cancelled a contract with US group Enron to build a $2bn power plant at Dabhol. The contract has now been renegotiated.

The rapid expansion of India's electricity industry offers an opportunity to international power companies. The Indian government has plans to improve electricity supplies and has set a target of increasing generating capacity by 50 per cent over the next 10 years.

The Gujurat project is PowerGen's first venture in India. However, it is also in negotiations for the development of two further power stations and has a joint venture with AV Birla group, India's second largest business.

The deal will help PowerGen increase its overseas earnings at a time when competition at home is increasing.

# BAe finance director to become Amersham chairman

By Bernard Gray, Defence Correspondent

Mr Richard Lapthorne, finance director of British Aerospace, will take over as non-executive chairman of Amersham International, the medical diagnostics company, after Amersham's annual meeting this summer. However, the move does not herald Mr Lapthorne's departure from BAe, or any shake-up of the BAe board.

Mr Lapthorne has made it clear to institutional investors and the BAe board that he does not regard his job with the group as finished.

Equally, he has been keen to extend his external interests, and has served on the Amersham board for several years. As a result, he will take over from the current chairman, Sir Edwin Nixon, when he retires later this year.

With BAe's worst financial problems largely sorted out, Mr Lapthorne has stepped away from some of the day-to-day financial management and is now sharing that work with his deputy, Mr George Rose. Despite that, Mr Lapthorne has always maintained that he has no ambitions to become chief executive in succession to Mr Dick Evans, the current chief executive.

In any event, such an issue is unlikely to arise for at least two years as Mr Bob Bauman, the chairman, may well extend his contract beyond April 1997, its current expiry date, which also implies that Mr Evans's role is unlikely to change. The BAe board is thought to feel that the current combination of Mr Bauman, Mr Evans and Mr Lapthorne works well, and is keen to avoid further disturbance after the turbulence of recent years.

The next two years are also viewed as crucial for the company's strategy, with the future shape of the European defence industry likely to become clear. BAe is taking a leading role in discussions about how the industry might rationalise and consolidate, and the company feels it needs both Mr Evans and Mr Lapthorne in their current roles to complete any negotiations.

"With everything that is going on in Europe, the company may well have a very different shape in two years time, so speculating about who might run which parts of the European defence industry so far in the future is pretty idle," said one BAe executive.

NEWS DIGEST

## Airtouch to acquire rest of Cellular One

Airtouch, the US cellular telephone company, has announced an agreement to buy the 60 per cent of Cellular Communications it does not already own in a deal which the company valued at $1.65bn. The acquisition will give Airtouch full control over Cellular One, a joint venture it has operated with Cellular Communications in Michigan and Ohio since 1990. Under the terms of an agreement struck at the time, Airtouch had an option to buy the rest of Cellular Communications after August this year, with the price to be determined by an appraisal process.

Cellular One has more than 1m subscribers, and had operating revenues of $580m and cashflow of $284m last year, Airtouch said. The $1.65bn purchase price, which includes the assumption of $200m of net debt, will be met in large part by the issue of convertible preference shares, with a maximum of 28 per cent in the form of cash. Airtouch put the cash value of the offer at $55 a share.

Airtouch was spun off in 1993 by Pacific Telesis, the West Coast telephone company which announced a merger with rival SBC Communications last week.

*Richard Waters, New York*

## IBM, Matsushita in network link

IBM and Matsushita are to co-operate in providing computer network services in Japan in a link that could extend to international markets. IBM Japan, the subsidiary of the US computer company, and Matsushita, the Japanese consumer electronics group, are pulling their respective network services together to offer a more comprehensive service to customers in Japan.

IBM Japan, which provides a domestic value-added network service, will incorporate into its menu of offerings Matsushita's VAN services, which have so far been used mainly by Matsushita group companies. IBM Japan will have access to Matsushita's voice services, which the consumer electronics company has been providing since 1991.

*Michiyo Nakamoto, Tokyo*

## Daiei boosts full-year forecast

Daiei, Japan's largest supermarket chain, has increased its consolidated earnings projections for the year to February ahead of its official profit announcement later this month. Low interest rates led to a decline in funding costs for the group, although sales estimates were reduced because of weaker-than-expected consumer confidence.

The company increased its estimate of consolidated pre-tax profits 184 per cent over its initial forecast, to Y37bn ($344m) – 4.9 times that of the previous year. Group sales were cut 4.1 per cent to Y3,156.6bn, down 2.1 from a year earlier. Net profits are expected to remain unchanged at Y5bn.

*Emiko Terazono, Tokyo*

## Gold mine setback for North

Plans by North, the Melbourne-based resources group, to develop an A$177m (US$139m) gold mine at Lake Cowal in central New South Wales have been dealt a blow by the state government, which has decided to block the project on environmental grounds. Environmentalists claim the lake and its surroundings are wetlands of international significance.

A spokesman for Mr Bob Carr, the NSW premier, said the government did not believe sufficient safeguards had been put in place, given the significance of the area. The government expressed particular concern over the use of cyanide for processing the ore, so close to the wetlands. The decision came as a surprise to North, which had earlier had the green light from a commission of inquiry.

The company – formerly known as North Broken Hill Peko – has yet to be officially informed of the government's decision, although this is expected to happen today. North indicated that it would consider its options when it had a fuller understanding of the reasons behind the government's decision.

The project – an in-house discovery – was due to come into production in 1997 and has an estimated resource of more than 2m ounces of gold. Annual production was likely to be about 230,000 ounces over the mine's seven-year life, and then 100,000 ounces for a further four years, as lower-grade ore was processed.

*Nikki Tait, Sydney*

## Kenya Airways float popular

The Kenyan public's interest in the Kenya Airways flotation, the largest in the country's history, has exceeded all expectations and the lead stockbrokers in charge of the offer say it could be oversubscribed by up to 200 per cent. The vast majority of applications returned so far are retail, with the institutions expected to hold off until the closing days.

About 34 per cent of the state-owned carrier's stock has been reserved for the Kenyan public and institutions, with another 14 per cent allotted to international investors. The government retains a minority stake of 23 per cent.

Investors appear to be drawn by the low offer price of Ks11.25 per share, sharply discounted on the asset value of Ks17.38, last year's $17m profits and the partnership with Dutch national carrier, KLM, which bought a 26 per cent stake in Kenya Airways last January.

Another important factor was the public perception that the flotation, in contrast with past privatisations in which the government remained a majority shareholder, represented a true state divestment. "The perception out there is that the government really is taking its hands off this time and you're buying into private sector management and an internationally reputed airline," said Mr John Munge, of Shah, Munge and Partners Ltd.

After the offer closes a committee will study how to allocate the shares. Priority in the foreign tranche will be given to emerging funds and institutional investors while the domestic offer will aim to reach the widest possible market.

*Michela Wrong, Nairobi*

# Viacom joins Kirch in five-year alliance

**By Wolfgang Münchau in Frankfurt**

Viacom, the US entertainment giant, and Kirch-Gruppe, the German media group, have formed a five-year strategic alliance.

The deal is aimed at giving Viacom a foothold in Germany and strengthening Kirch's grip on the distribution rights of US-produced films and television shows. The agreement was signed in New York yesterday and took effect retroactively on January 1. The two sides did not disclose financial details.

Under the terms, Kirch has secured the television rights for German-speaking territories on all films and TV shows produced by Paramount Pictures, a Viacom subsidiary, during the five-year period.

These rights will be extended to cover the whole of continental Europe for some TV shows and films. The agreement also extends Kirch's existing rights to Paramount's programming library.

For Kirch, the deal is another step in the race for the leadership in digital TV, which will offer interactive television, including home shopping and video on demand.

As part of the deal, Kirch agreed to carry several of Viacom's networks, including MTV Europe and the VH-1 Germany music channels, and a programming block of Nickelodeon, a Viacom children's TV network.

Viacom has also secured an option for a 12 per cent stake in Gestevision Telecinco, which owns Estudios Telecinco, a Spanish television network. The two companies said they planned to launch other co-operative ventures.

Kirch, which runs the Sat 1 television network in Germany, owns the largest film and TV archive in Europe. Viacom is one of the world's largest media companies. It includes Paramount Pictures, Paramount Television, Blockbuster, the video rental group, MTV, and Simon & Schuster, the publishing company.

# Chrysler to sell defence activities to Raytheon

**By Richard Waters in New York**

Chrysler has agreed to sell its defence electronics and airborne systems businesses to Raytheon for $475m, marking what is likely to be the largest of the disposals it promised when reaching a truce with Mr Kirk Kerkorian in February.

The US carmaker had said as long ago as 1990 that it planned to sell its non-automotive businesses.

However, it took pressure from Mr Kerkorian, the company's biggest shareholder, for Mr Bob Eaton, Chrysler's chairman, to deliver on that promise.

Raising cash through asset sales was one of the conditions for the five-year standstill agreement reached between the Las Vegas-based investor and Chrysler.

For Raytheon, meanwhile, the purchase is the latest in a string of acquisitions in the defence and electronics areas. Last year, the company paid $2.3bn for E-Systems, part of whose business operates in direct competition with the Chrysler operations being acquired.

Raytheon is buying two of the businesses of Chrysler Technologies, while a third, Pentastar Electronics, will be retained by the carmaker. Chrysler Technologies as a whole had sales of nearly $500m last year, Raytheon said.

After the sale, which is subject to anti-trust review, Chrysler's non-automotive businesses will comprise Pentastar and two rental car companies, Thrifty and Dollar.

The carmaker has also attempted in the past to sell some of its parts-making operations, though opposition from the United Auto Workers union has blocked the move. Like Ford Motor, for instance, Chrysler has been prevented from selling its glass-making business.

News of the disposals comes before next week's release of first-quarter earnings, which are expected to show a strong performance at the smallest of the big three carmakers. A year ago, Chrysler's earnings were hit by a sluggish new vehicle market in the US and the cost of switching to a new model of its popular minivan. This year, the minivan has been selling strongly, as has another high-margin vehicle, the Jeep Grand Cherokee.

Mr David Healy, an auto industry analyst at Burnham Securities, predicted Chrysler would report earnings per share of $2.45 for the first quarter, well above the $1.63 of a year ago and ahead of the $2.30 Chrysler recorded at the beginning of 1994.

The company's margins could eventually come under pressure from growing competition in its most profitable vehicle lines, Mr Healy said, with a new minivan from General Motors this autumn and an array of manufacturers targetting the luxury sports-utility market.

Bob Eaton: following through on promise made in 1990

# Komerční Banka plans executive share options

**By Vincent Boland in Prague**

Exponents of the Anglo-Saxon brand of capitalism are about to score a rare and notable success in the Czech Republic after the country's leading bank said it intended to introduce a share options package for senior executives as part of their annual remuneration.

Komerční Banka, the dominant commercial bank, will reward seven members of its management board with share options on the basis of its 1995 results, which were greeted warmly by the market when they were unveiled last week.

Komerční, which has broken new ground for Czech banks in other key areas, is the first big privatised company to introduce such a scheme. It amounts to a revolutionary step in the conservative Czech business world, which to the disappointment of US-style bankers and stockbrokers is developing along German or continental lines.

Dr Richard Salzmann, chairman and chief executive of Komerční, said the options scheme was offered and approved by the bank's supervisory board.

It was considered appropriate, he said, "on the basis of experience from Anglo-Saxon countries".

The package's value will be based on the bank's annual profits and on the achievement of targets, including an increase in Komerční's share price, which has risen sharply since the beginning of the year.

"It is a form of motivation that is very advantageous for the bank," Dr Salzmann said.

The share price rose 6 per cent last Wednesday, after the bank disclosed better-than-expected profits of Kc5.1bn ($186m) after tax and a dividend that could reach 20 per cent of each share's nominal value of Kc500. Profits for this year are forecast to be higher again.

Dr Salzmann would not disclose the value of the scheme to the executives, which include himself. He said the size of each director's 1995 options package would be disclosed in the annual report for 1996.

Komerční is considered to be the most restructured of the four main Czech banks. It was the first Czech bank to undergo an audit by international accountants, the first to launch a global depository receipt programme, and the first to issue a eurobond, which CS First Boston is about to bring to the market.

The bank's success in provisioning its loan portfolio – the Achilles heel of every Czech bank – has attracted strong interest in its shares from foreign portfolio investors, who regard it as a bellwether of the growing economy.

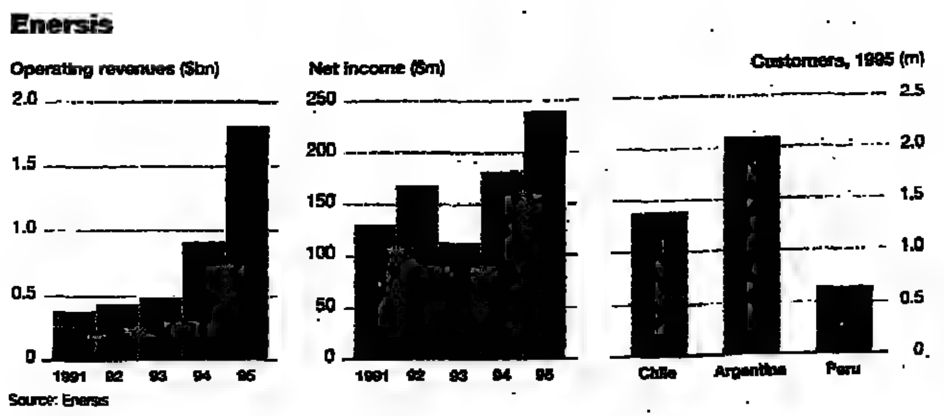
It remains to be seen whether Komerční's move to give its senior people a stake in its success will be followed by other Czech companies. There are obstacles to the widespread advance of share options packages, including the fact that at many companies management is not independent of its main shareholder for whom the performance of the share price is often less important than control of the company.

Nevertheless, experience has shown that where Komerční ventures, other Czech companies, and especially banks, usually follow.

## COMPANIES AND FINANCE: INTERNATIONAL

# Enersis aims to turn Light into profit

## Chile's power conglomerate is preparing a bid for the Brazilian company to maintain its high growth rate, writes Imogen Mark



Source: Enersis

Enersis, Chile's largest power conglomerate, is moving into the spotlight as it prepares a bid for a much bigger Brazilian state company.

Its target is Light, distributor for the city of Rio do Janeiro, which sells 19,981 GWh (gigawatt/hours) a year. By contrast, all of Chile consumes only 19,940 GWh of electricity a year. The minimum price tag on Light is $2.5bn.

Enersis is no stranger to restructuring state utilities. It acquired Argentine distributing assets for $194m when Segba, the Buenos Aires generating and distribution company, was privatised in 1992.

Enersis and its distribution subsidiary Chilectra - which serves 1m clients - acquired 19.6 per cent of the distribution network for the southern half of the Argentine capital in 1992.

The Argentine assets, which became Edesur, serves 2m customers. Chilectra has invested $490m in it and has turned losses of $62m in 1993 into profits of $74m.

This, maintains Enersis, is its strength: turning over-weight, under-invested, state-run utilities into profitable private distribution companies. It first moved on Chilectra, which was already privatised, in 1987. It is now working on Edelnor, a Lima distributor acquired in 1994.

It is also speeding up the turnround process. At Chilectra it took nine years to reduce energy losses from theft, leakage and over-consumption from 19.3 per cent to last year's 9 per cent. The same process took only three years in Argentina, from 26 per cent in 1993 to 12 per cent last year. In Lima, there has been a 4.5 per cent gain in little more than a year.

In Argentina, for example, power cuts were averaging an hour a week in 1992 but are now down to an hour a quarter. Cutting staff has proved politically sensitive. In Argentina it has been a source of conflict - the Chilean flag was burned by angry employees on one occasion. Chilectra is the company's benchmark for an efficient customer-to-staff ratio, at 615:1. Edesur had to dismiss almost half its employees to reach 514:1. Light has 12,000 employees, so its numbers would have to fall to about 3,600 to achieve the same ratio.

Enersis had sales of $1.8bn in 1995, double the 1994 figure, with the increase coming from a bigger share in Edesur. It has been taking on new debt and capital to cover past and future acquisitions, with an additional $280m in new shareholder capital, and a $500m syndicated loan from an international banking consortium.

Enersis is expected to go for a controlling stake plus management in Light through a consortium with Brazilian and possibly US partners.

The Chileans are awaiting clarification of the estimated rate of return in the formula to be used for setting tariffs. If this is less than, say, 85 per cent airtight, says Mr David Hurd, senior analyst in Merrill Lynch's Santiago, then "Enersis doesn't need Brazil just now" and would do better to focus on other possibilities in Colombia and Mexico.

But Enersis needs new outside investments to maintain its growth rate. The bulk of its revenues will come from its Chilean business until the end of the decade, says Mr Hurd. He regards the possibilities for faster growth outside Chile as important in maintaining investor interest in the company.

Chilean consumption, at 1,351 kWh per head per year, is still far from Hong Kong's 4,418 kWh. But Brazil, with a population of 161m, consumes only a shade more power, at 1,406 kWh per capita than Chile, with a population of 14m.

In Chile, apart from Chilectra and a second small distributor, Enersis has a real estate arm, a software subsidiary and a controlling 25 per cent stake in Endesa, the biggest generator. Endesa supplies almost half the power in the central electricity grid, which covers 93 per cent of Chilean consumption.

Its main competitor, Chilgener, mainly has thermal generators, which are less cost-efficient than hydro. Chilgener has been the driving force to bring natural gas from Argentina to Chile, via a pipeline being built across the Andes to Santiago.

Cheaper power from gas will cut the base price for electricity by an estimated 20-25 per cent - benefiting Chilectra and the other distributors, though reducing margins for the generators. Endesa will build its own gas-fired plant in 1997, but the bulk of its production will still come from hydro, with two new plants in the offing.

A third new competitor should come on the scene towards the end of the year, when Colbun, the last state-owned electricity utility, sells a stake to a private owner-operator. The government wants greater competition, so suppliers to the central grid will not be allowed to bid. Instead, the government wants to attract a big foreign utility to develop Colbun - and give Enersis/Endesa more of a run for its money.

# Barney's could put Isetan in the red

**By Emiko Terazono in Tokyo**

Isetan, a leading Japanese department store operator, could go into the red for the first time in 35 years because of losses resulting from the bankruptcy proceedings of its US partner, Barney's of New York.

The Japanese department store operator said it had yet to be decided whether or not or how much of the losses relating to Barney's, whose Chapter 11 bankruptcy proceedings began in January, would be included in its consolidated earnings.

But Mr Kunihiko Murata, an Isetan official, said the company might post net losses for the first time since its listing in 1961.

The Japanese retailer tied up with Barney's in 1989, and has since provided the New York retailer with Y61.6bn ($573m) in investments and loans, funding its expansion in the US.

The dispute over the joint venture agreement and the ownership of the chain of Barney's stores in the US, has prompted litigation from both sides. Barney's filed a suit for $50m against Isetan in January and the Japanese retailer countered with a $168m lawsuit against Barney's last month.

Isetan had expected its core business to be in the black for the year ended March after posting its first recurring profit in four years in the year to March 1995.

Sales at Barney's Japan, in which Isetan holds an 80 per cent stake, have also been brisk.

But Isetan's stock fell Y30, or 1.9 per cent, to Y1,530 on the Tokyo stock exchange yesterday because investors were concerned at reports over the weekend that the company would suffer a net loss of Y20bn for the past business year because of a Y30bn write-off of losses stemming from Barney's bankruptcy.

The company, which will release its annual earnings statement at the end of May, refused to confirm the figures, saying an official decision on its annual accounts was yet to be made.

# Codelco-AMP venture to woo pension funds

**By Imogen Mark in Santiago**

An alliance between Codelco, the Chilean state-owned copper corporation, and AMP, Australia's biggest pension fund manager, plans to become Latin America's first mining house, according to Mr Jorge Bande, managing director of AMP Investments, Chile.

"It will be a step towards forging a link between the Chilean capital markets and the Chilean mining sector which has been almost entirely absent until now," Mr Bande said, adding that the venture hoped to attract the support of institutional investors, and more specifically the Chilean private pension funds. The venture aims to become one of the top 20 companies on the domestic stock market. It will be formed as a holding company with initial assets of $20m. AMP will contribute $6m in cash, and take 51 per cent of the company; Codelco will take the other 49 per cent stake, and contribute four mining properties from its portfolio of exploration prospects. These are either copper, gold or mixed deposits.

Once the venture has developed or acquired workable deposits, it will seek new capital from domestic institutional investors, according to Mr Ivan Valenzuela, Codelco's vice-president for exploration.

Most of the big mines in Chile are foreign-owned. Only one, Mantos Blancos, which is majority-owned by Anglo-American, has a float on the Chilean stock market, and that is very small.

Mr Valenzuela said Codelco had been holding talks for some months with the superintendency of pension funds, which monitors the funds' investments and operations, to find ways in which they could invest in this or other ventures. For example, Codelco has a medium-sized deposit, San Antonio, near its Salvador mine. By the end of the year it expects to have a clear idea of the reserves and the type of ore, which will determine how it can be mined and at what cost.

At that point, Mr Valenzuela said, they expected to be able to offer bonds on the local market for institutional investors without the need for changes in pension fund law, which limits the amount the funds can invest directly in mining projects.

The funds manage assets of about $25bn, but are strictly regulated.

However, they need to diversify their share portfolios, which are heavily concentrated in the electricity sector, because they represent such a large proportion of the companies which trade in the Chilean stock market.

Mr Valenzuela said there was considerable interest among the pension fund managers in the possibility of investing with Codelco.

There is no question of privatising the state-owned company's existing operations, which contributed $1.8bn to fiscal revenue last year, equivalent to 40 per cent of the 1995 health, education and housing budgets.

Codelco, which reported sales of $3.9bn in 1995, is the world's biggest copper mining company, with production last year of 1.2m tonnes.

### HIGH GRADE COPPER (COMEX)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 113.60 | +0.30 | 113.60 | 113.10 | 214 | 2,883 |
| May | 113.35 | - | 113.85 | 112.80 | 1,866 | 19,123 |
| Jun | 112.60 | -0.25 | 112.70 | 112.45 | 37 | 967 |
| Jul | 112.10 | -0.15 | 112.50 | 111.70 | 328 | 6,512 |
| Aug | 111.50 | -0.15 | - | - | 5 | 537 |
| Sep | 110.90 | -0.15 | 111.30 | 110.60 | 44 | 3,443 |
| Total | | | | | [illegible] | [illegible] |

## Precious Metals continued

### GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 398.2 | +3.1 | 397.5 | 395.0 | 148 | 753 |
| Jun | 400.7 | +3.1 | 401.0 | 397.1 | 18,753 | 100,844 |
| Aug | 403.1 | +3.2 | 403.1 | 399.8 | 535 | 25,117 |
| Oct | 405.5 | +3.2 | 403.6 | 403.0 | 269 | 5,240 |
| Dec | 408.0 | +3.3 | 408.2 | 404.4 | 2,388 | 22,817 |
| Feb | 410.6 | +3.4 | 408.3 | 408.3 | 19 | 5,017 |
| Total | | | | | 20,074 | 188,762 |

### PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Apr | 410.6 | +2.6 | 415.0 | 408.5 | 32 | 308 |
| Jul | 412.4 | +2.8 | 412.5 | 409.8 | 1,326 | 19,832 |
| Oct | 415.4 | +2.8 | 416.0 | 414.0 | 10 | 3,138 |
| Jan | 418.2 | +2.6 | - | - | 5 | 1,066 |
| Apr | 420.7 | +2.6 | - | - | 6 | 685 |
| Total | | | | | 1,388 | 24,889 |

### PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Jun | 142.60 | +1.35 | 142.60 | 141.50 | 322 | 5,573 |
| Sep | 144.00 | +1.35 | - | - | 225 | 1,046 |
| Dec | 145.10 | +1.45 | 145.00 | 145.00 | 1 | 111 |
| Total | | | | | 547 | 6,730 |

### SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

| | | | | | | |
|---|---|---|---|---|---|---|
| Apr | 555.0 | +13.0 | 560.0 | 550.0 | 1 | 1 |
| May | 556.5 | +13.0 | 557.0 | 547.0 | 26,020 | 57,280 |
| Jul | 561.8 | +13.2 | 563.0 | 551.0 | [illegible] | 19,065 |
| Sep | 566.6 | +13.6 | 564.0 | 557.8 | 931 | 11,512 |
| Dec | 574.2 | +14.1 | 572.0 | 566.0 | 490 | 7,881 |
| Mar | 582.0 | +14.6 | - | - | 1 | 3,165 |
| Total | | | | | 33,862 | 102,777 |

## ENERGY

### CRUDE OIL NYMEX (42,000 US galls. $/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 23.39 | +0.84 | 23.40 | 22.57 | 38,424 | 83,916 |
| Jun | 21.26 | +0.36 | 21.29 | 20.62 | 24,051 | 65,934 |
| Jul | 19.98 | +0.16 | 20.03 | 19.75 | 11,008 | 48,629 |
| Aug | 19.17 | -0.01 | 19.25 | 19.07 | 9,039 | 33,277 |
| Sep | 18.79 | -0.04 | 18.85 | 18.77 | 6,026 | 30,491 |
| Oct | 18.55 | -0.10 | 18.55 | 18.53 | 2,081 | 15,411 |
| Total | | | | | 104,682 | 408,345 |

### HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 61.75 | +2.18 | 61.75 | 59.25 | 11,047 | 24,950 |
| Jun | 55.85 | +1.44 | 55.90 | 54.30 | 4,237 | 14,829 |
| Jul | 53.35 | +0.84 | 53.40 | 52.70 | 1,365 | 12,660 |
| Aug | 52.70 | +0.34 | 52.70 | 52.20 | 494 | 8,056 |
| Sep | 52.75 | +0.04 | 52.90 | 52.50 | 222 | 4,537 |
| Oct | 53.45 | +0.24 | 53.45 | 53.25 | 579 | 3,346 |
| Total | | | | | 19,821 | 82,873 |

### NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 2.310 | -0.025 | 2.315 | 2.285 | 12,123 | 32,807 |
| Jun | 2.280 | -0.009 | 2.290 | 2.260 | 5,045 | 21,166 |
| Jul | 2.235 | -0.018 | 2.240 | 2.225 | 3,709 | 21,051 |
| Aug | 2.200 | -0.010 | 2.205 | 2.190 | 662 | 15,343 |
| Sep | 2.160 | -0.008 | 2.180 | 2.155 | 370 | 12,767 |
| Oct | 2.148 | -0.008 | 2.145 | 2.135 | 579 | 10,473 |
| Total | | | | | 23,832 | 156,789 |

### UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 70.25 | +1.49 | 70.30 | 68.30 | 13,119 | 28,909 |
| Jun | 67.40 | +1.26 | 67.45 | 65.75 | 5,872 | 16,811 |
| Jul | 64.20 | +0.91 | 64.30 | 63.20 | 2,722 | 10,826 |
| Aug | 60.90 | +0.81 | 60.90 | 60.15 | 2,103 | 5,940 |
| Sep | 58.30 | +0.76 | 58.45 | 58.10 | 727 | 3,234 |
| Oct | 56.15 | +0.86 | 56.15 | 55.15 | 4 | 725 |
| Total | | | | | [illegible] | [illegible] |

**VOLUME DATA**
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

## GRAINS AND OIL SEEDS

### WHEAT CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 525.25 | +2.75 | 530.00 | 520.50 | 4,265 | 18,628 |
| Jul | 492.00 | +5.00 | 496.50 | 485.25 | 17,359 | 51,331 |
| Sep | 494.50 | +5.00 | 497.50 | 487.00 | 1,784 | 12,322 |
| Dec | 504.25 | +3.25 | 507.50 | 499.00 | [illegible] | [illegible] |
| Mar | 502.00 | +5.00 | 507.00 | 498.00 | 90 | 659 |
| Jul | 435.00 | +3.00 | 438.00 | 432.00 | 62 | 636 |
| Total | | | | | 26,837 | 94,823 |

### MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 438.75 | +9.25 | 437.75 | 426.00 | 61,209 | 161,414 |
| Jul | 425.50 | +9.25 | 427.75 | 416.00 | 34,434 | 148,660 |
| Sep | 374.50 | +11.00 | 375.50 | 363.00 | 10,290 | 46,494 |
| Dec | 342.25 | +8.50 | 343.00 | 332.50 | 16,536 | 111,033 |
| Mar | 347.50 | +8.25 | 348.00 | 338.25 | 1,847 | 9,756 |
| May | 348.75 | +8.75 | 350.50 | 340.50 | 138 | 885 |
| Total | | | | | [illegible] | 471,538 |

### SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 781.25 | +15.75 | 786.00 | 762.00 | 14,069 | 56,980 |
| Jul | 790.75 | +18.50 | 796.00 | 772.50 | 29,578 | 88,171 |
| Aug | 792.00 | +16.75 | 797.00 | 775.00 | 1,465 | 8,404 |
| Sep | 783.75 | +18.25 | 788.00 | 765.50 | 391 | 4,473 |
| Nov | 779.50 | +18.50 | 783.50 | 758.00 | 12,804 | 61,172 |
| Jan | 786.75 | +18.75 | 789.00 | 767.50 | 384 | 3,898 |
| Total | | | | | [illegible] | [illegible] |

### SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 26.08 | +0.34 | 26.20 | 25.50 | [illegible] | 30,615 |
| Jul | 26.31 | +0.33 | 26.50 | 25.88 | [illegible] | 37,713 |
| Aug | 26.48 | +0.34 | 26.65 | 26.05 | 729 | 7,137 |
| Sep | 26.62 | +0.31 | 26.80 | 26.28 | 128 | 3,940 |
| Oct | 26.77 | +0.35 | 27.00 | 26.41 | 198 | 2,383 |
| Dec | 27.12 | +0.34 | 27.35 | 26.88 | 2,112 | 12,178 |
| Total | | | | | 17,970 | 94,741 |

### SOYABEAN MEAL CBT (100 tons; $/ton)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 248.7 | +5.5 | 251.2 | 242.3 | 13,484 | 32,027 |
| Jul | 252.6 | +5.8 | 255.1 | 244.8 | [illegible] | [illegible] |
| Aug | 252.7 | +6.8 | 255.3 | 246.7 | 2,169 | 7,056 |
| Sep | 251.6 | +6.7 | 253.0 | 245.2 | 385 | 4,503 |
| Oct | 248.6 | +5.4 | 250.0 | 242.2 | 232 | 3,004 |
| Dec | 248.6 | +6.5 | 250.2 | 242.0 | 2,433 | 11,701 |
| Total | | | | | [illegible] | [illegible] |

## SOFTS

### COCOA CSCE (10 tonnes; $/tonnes)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| May | 1331 | -10 | 1346 | 1330 | 7,582 | 20,110 |
| Jul | 1342 | -12 | 1358 | 1341 | 6,737 | 21,371 |
| Sep | 1362 | -4 | 1376 | 1362 | 669 | 13,782 |
| Dec | 1373 | -10 | 1383 | 1375 | 749 | 15,907 |
| Mar | 1397 | -11 | 1395 | 1387 | 1,909 | 11,134 |
| May | 1403 | -11 | - | - | 68 | 4,888 |
| Total | | | | | 17,744 | [illegible] |

### COCOA (ICCO) (SDR's/tonne)

| Apr 3 | Price | Prev. day |
|---|---|---|
| Daily | 974.21 | 970.63 |

### COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 113.55 | -1.70 | 116.40 | 111.00 | 6,498 | 15,437 |
| Jul | 114.10 | -1.00 | 115.20 | 111.80 | 1,909 | 8,200 |
| Sep | 113.40 | -1.30 | 115.00 | 112.00 | 480 | 4,375 |
| Dec | 113.60 | -0.60 | 114.75 | 112.00 | 98 | 2,046 |
| Mar | 113.60 | -0.40 | 114.00 | 113.50 | 25 | 503 |
| May | 112.85 | -0.30 | 113.50 | 113.50 | 54 | 189 |
| Total | | | | | 9,042 | 30,784 |

### COFFEE (ICO) (US cents/pound)

| Apr 3 | Price | Prev. day |
|---|---|---|
| Comp. daily | 103.92 | 104.11 |
| 15 day average | 105.93 | 106.96 |

### SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 11.91 | +0.02 | 11.96 | 11.78 | 10,152 | 43,274 |
| Jul | 11.26 | +0.20 | 11.30 | 11.04 | 5,561 | 45,449 |
| Oct | 10.92 | +0.18 | 10.98 | 10.77 | 1,420 | 29,404 |
| Mar | 10.61 | +0.17 | 10.65 | 10.48 | 865 | 19,074 |
| May | 10.53 | +0.15 | 10.53 | 10.39 | 247 | 4,982 |
| Jul | 10.41 | +0.14 | 10.37 | 10.27 | 73 | 2,373 |
| Total | | | | | 18,484 | 146,195 |

### COTTON NYCE (50,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 87.22 | -0.33 | 88.30 | 86.90 | 11,034 | 18,726 |
| Jul | 88.65 | -0.18 | 89.50 | 88.05 | 10,326 | 16,372 |
| Oct | 83.45 | +0.38 | 83.50 | 82.70 | 477 | 2,688 |
| Dec | 80.80 | +0.37 | 80.80 | 80.05 | 3,366 | 19,308 |
| Mar | 81.53 | +0.28 | 81.60 | 81.15 | 89 | 2,353 |
| May | 81.98 | +0.23 | 81.80 | 81.75 | 92 | 1,059 |
| Total | | | | | 25,433 | 62,660 |

## Softs continued

### ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 132.55 | +2.70 | 134.00 | 130.80 | 626 | 12,972 |
| Jul | 130.75 | +2.20 | 131.80 | 129.70 | 225 | 4,712 |
| Sep | 129.65 | +2.20 | 130.00 | 128.00 | 14 | 2,833 |
| Nov | 126.30 | +2.00 | 126.30 | 126.30 | 4 | 794 |
| Jan | 124.00 | +2.05 | 124.00 | 122.80 | 51 | 2,989 |
| Mar | 125.95 | +2.00 | 126.00 | 126.70 | - | 176 |
| Total | | | | | 920 | 24,381 |

## MEAT AND LIVESTOCK

### LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Apr | 63.475 | -0.300 | 63.775 | 63.150 | 3,504 | 17,719 |
| Jun | 63.400 | -0.075 | 63.675 | 62.950 | 92 | 35,203 |
| Aug | 63.325 | +0.025 | 63.650 | 63.050 | 36 | 20,600 |
| Oct | 64.500 | +0.300 | 64.550 | 64.050 | 80 | 11,224 |
| Dec | 63.325 | +0.150 | 63.450 | 63.025 | 1 | 10,092 |
| Feb | 63.625 | +0.375 | 63.800 | 63.175 | 180 | 4,357 |
| Total | | | | | [illegible] | [illegible] |

### LIVE HOGS CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| Apr | 53.950 | +1.375 | 54.075 | 52.650 | 984 | 8,121 |
| Jun | 58.400 | +1.500 | 58.400 | 57.000 | 32 | [illegible] |
| Jul | 56.375 | +1.150 | 56.700 | 55.325 | 22 | 6,806 |
| Aug | 52.750 | +0.775 | 53.300 | 52.200 | 23 | 6,088 |
| Oct | 49.200 | +0.850 | 49.450 | 48.250 | 7 | 3,657 |
| Dec | 50.375 | +0.875 | 50.650 | 48.500 | 7 | 2,591 |
| Total | | | | | 1,081 | 45,013 |

### PORK BELLIES CME (40,000lbs; cents/lbs)

| | | | | | | |
|---|---|---|---|---|---|---|
| May | 76.400 | +2.000 | 76.400 | 74.300 | [illegible] | 6,130 |
| Jul | 75.575 | +2.000 | 75.575 | 73.400 | 61 | 3,568 |
| Aug | 72.575 | +2.000 | 72.575 | 70.400 | 8 | 1,208 |
| Feb | 69.950 | +2.000 | 69.950 | 68.600 | 2 | 301 |
| Mar | 70.300 | +2.000 | 70.300 | 70.000 | 5 | 8 |
| May | 71.000 | +1.400 | 71.000 | - | 1 | 1 |
| Total | | | | | 175 | 11,214 |

# The consensus way with governance

**Norma Cohen** on changing relations between investors and companies in the Netherlands

FUND MANAGEMENT

The Amsterdam Stock Exchange's top priority for 1996 is corporate governance.

Corporate governance? *In the Netherlands?*

In his turn of the year address to stock exchange members, Boudewijn Baron Van Ittersum, chairman, said that relations between listed companies and their shareholders must be improved.

"I deeply regret that – partly as a result of the long-running debate on these issues – the relations between listed companies and shareholders' representatives are not all they could be," he said.

"The more active role being taken by investors is still experienced by too many companies as a threat, while it could – if taken seriously – function to support an effective corporate policy."

In recent weeks, the Amsterdam exchange, in co-operation with the Dutch Association of Stock Exchange Listed Companies, set up a committee to make recommendations on best practice for company directors and supervisory boards.

But the interesting question is why corporate governance is now becoming an issue of such pressing concern in the Netherlands.

Unlike their German counterparts, Dutch companies have been relatively free from the sorts of corporate banana skins which have fueled a drive for higher standards of corporate governance there. They have also avoided the corporate corruption scandals which have dogged some French companies and sparked an outcry among their investors.

Moreover, by European standards at least, the Dutch markets have provided good returns over the years.

However the Netherlands looks undervalued when viewed on a p/e basis with companies trading at only 12.9 against 15.6 for other European exchanges. However, Mr Richard Davidson, European equity strategist at Morgan Stanley International, says this may reflect differences in accounting practices.

There is one facet of the Dutch market which may lead to underperformance. "Dutch anti-takeover mechanisms are tougher than most continental countries," Mr Davidson notes. For instance, companies are allowed to issue a block of new shares to a "friendly" company to prevent a hostile bid.

And many shareholders are issued "trust" shares which give them economic rights but not voting rights over a company's affairs. The trusts are appointed largely by managements themselves and shareholders have no mechanism for making their views heard.

Moreover, there is no system of proxy voting at Dutch corporate annual meetings.

The Dutch finance minister has said that the anti-takeover mechanisms are not good for domestic industry and has proposed modifications to allow hostile takeovers in some circumstances.

But these protective measures have been in place for years. Government prodding aside, the question is why corporate governance has only now become an issue. Observers say the answer lies in the changing nature of domestic investment.

"The pension funds themselves haven't used their influence up until now," says Mr Robert Ten Volde, general secretary of the Association of Industry-Wide Pension Funds. But in recent years, the need to obtain higher rates of return has prompted pension schemes to diversify out of fixed-interest securities and into equities.

"Some pension schemes have 25 to 30 per cent of assets in equities and some will move to 40 per cent," he says. "Pension funds are more and more considered profit centres for companies."

Pension fund investors cannot afford to be complacent in the face of corporate mediocrity, he adds.

Only this year, the ABP pension scheme, the world's second largest with Fl 195bn in assets, has been freed of all government restrictions on its investment decisions. By 2000, its total equity investment is expected to rise from Fl 31bn to Fl 85bn.

According to Mr Michel Meijs of ABP the pension scheme is "recently redefining its position as a shareholder in Dutch companies in order to protect long-term shareholder value". It intends to appoint a member of staff whose sole duty will be to concentrate on corporate governance matters.

He adds that in some measure, Dutch shareholders are simply adopting a page from the textbook written by their US and UK counterparts who argue that active shareholders *can force complacent managements* to improve performance.

But it is not clear that culturally, either shareholders or companies are prepared to adopt the muscular approach to corporate governance which has characterised US investors. ABP, for instance, says it "does not intend to intervene in a company's strategic management decisions".

Mr Ernst Enschede, bureau director of the Dutch Association of Stock Exchange Listed Companies, says that the Dutch concept of the corporation will not be readily amenable to too much bending of the *current structure.*

"There are more stakeholders than shareholders in a company," he says. "If shareholders are unhappy, they can vote with their feet."

But if large shareholders are unhappy with the way a company is being run, he says, it is unlikely that management will turn a deaf ear. "We are a consensus-driven society," Mr Enschede says.

FACES

## Picking winners: Hambrecht looks to home

For Bill Hambrecht, one of California's most successful high-tech investors, life has settled into a familiar pattern, Richard Waters writes. First, he puts up the money for a new business; then, picks a moment when the stock market has whipped itself into a hysteria over the money to be made in high-tech industries, and sells out.

The difference this time is that the company Hambrecht is considering taking public is his own.

Hambrecht & Quist is one of a handful of San Francisco banks the fortunes of which have blossomed alongside those of Silicon Valley. Recent H&Q companies to have made a splash include Netscape, which exploded on to the stock market last year. Though, as with most other public offerings handled by a boutique investment bank, a better-known Wall Street house was in tow – in Netscape's case, Morgan Stanley. Past H&Q successes have included Apple Computer and Genentech, the US's second-biggest biotech company.

Hambrecht, 60, has always been more of a venture capitalist than a banker. He is said to spend most of his time marshalling investments both for the bank and his own portfolio. But the two sides of Bill Hambrecht seem to sit comfortably together. As mementos, H&Q slaps "tombstone" announcements for its deals on bottles *of Cabernet Sauvignon produced at* Hambrecht's own Belvedere winery.

If H&Q does decide to go public later this year, it is likely to mark something of a passing of the generations. It would give Hambrecht a chance to cash in some of his stock, along with the bank's other principal shareholders, who include the widow of former partner George Quist, who died in 1982.

Richard Sermon: minding the European PR shop at Goldman Sachs since 1992

## Deloitte's Baltic banking rendezvous

Tony Houghton, partner at Deloitte & Touche, the UK accountancy firm, is packing his bags for Riga for one of *this year's most exotic liquidation assignments* – Latvia's Bank Baltija, George Graham writes.

Houghton and his colleague David Berrey, director of Deloitte's Latvian practice, were appointed liquidators of Baltija last week by the Riga regional court. Until its collapse last year, Baltija was the biggest bank not only in Latvia but in all the Baltic republics. It is reputed to owe more than $400m to some 150,000 creditors.

Putting Latvia's brand new bankruptcy law into practice should not prove too challenging for Houghton. As co-author of Deloitte's *"Guide to Insolvency in Europe,"* he can turn his hand to the full range of bankruptcy codes.

Houghton promises to "bring to bear the techniques successfully employed in dealing with the global asset-tracing requirements of BCCI."

The Riga court must be hoping that the *fees don't climb as high as for* BCCI. Deloitte has already billed nearly $300m, while recovering $3.3bn of assets for creditors, and is having to contest a Luxembourg report claiming it overcharged in the immediate aftermath of the bank's collapse.

The Latvian liquidation business could be a promising sector. Alongside Baltija, nine other banks became insolvent last year. European Union advisers to the Bank of Latvia say the number of banks is likely to halve, though the next wave of consolidation could be achieved in a more orderly way than the last.

## Veba's Lauk cracks US accountancy code

Kurt Lauk, finance director at Veba, used to quake at the thought of having to visit Scottish Widows, the Edinburgh-based pensions fund with holds a stake in the German conglomerate, Michael Lindemann writes.

There, Lauk says, young and "very tough" analysts used to pull apart Veba's figures and want to know the reasoning behind every move the Düsseldorf-based group made in order to justify the fund's investment.

His Edinburgh visits should henceforth be rather less intimidating, following completion of two-year negotiations with the US Securities and Exchange Commission, as a result of which Veba has become only the second German company after Daimler-Benz to file accounts which meet the US-based Generally Accepted Accounting Principles standards.

No doubt the 49-year-old Lauk picked up some of his stamina while studying theology at Tübingen University. He honed his skills at Boston Consulting, and has been at Veba since 1992.

As to when his efforts will be crowned with a New York Stock Exchange listing, Lauk remains silent. It will only happen, he says, when Veba can accompany the listing with a rights issue so that more equity stays in the US.

That could be at any time. Veba has a 10.5 per cent stake in Cable & Wireless, the London-based telecoms group which is in merger talks with British Telecommunications. If the deal comes off, Veba is unlikely to be content with a diluted stake in a larger group, and may reach for more cash.

## Investment banks brush up their image

It is all change at the public relations departments of the investment banks, Nicholas Denton writes. No fewer than four large institutions have been searching for new heads of corporate communications in London.

The number of changes reflects a combination of natural turnover and the growing importance placed by investment banks on their reputations – *not just among their closest clients*, but in a wider business community which is often reached through the media.

Morgan Stanley, the US investment bank, and SBC Warburg, the division of Swiss Bank Corporation, are understood to have identified outside candidates to take the positions. The appointee to the new Morgan Stanley post will report to Amelia Fawcett, an executive director.

The new head of corporate communications at SBC Warburg will replace Jens Tholstrup, who is returning to the corporate finance department from which he was plucked last year.

Meanwhile Goldman Sachs is breaking with its former practice and is discreetly looking for its first in-house head of corporate communications for Europe. The appointee would take over from a team led by Richard Sermon, on secondment from Shandwick, the British PR outfit, since 1992.

And J.P. Morgan is still in the market for a number two who would likely take over from Joe Evangelisti when he returns to the US next year.

FINANCIAL TIMES
# MARKETS
THIS WEEK



Global Investor / **Philip Coggan**

# Against conventional wisdom

Good contrarians should always be betting against the conventional wisdom.

On the subject of commodities, most people's views are pretty clear cut. Raw materials are no longer a significant contributor to inflation. The experience of 1994, when a sharp rise in many commodity prices failed to feed through the production chain is fresh in most economists' minds.

The sudden surge in the gold price earlier this year has come and gone, proving to be full of sound and fury, but signifying nothing. Commentators are even sanguine about the rise in the price of that 1970s inflationary bugbear, oil, which took West Texas Intermediate to more than $22 a barrel last week.

It is easy to see why the oil price might fall again. The resumption of talks between Iraq and the United Nations over the ending of sanctions might lead to the return to the market of a main supplier.

Even ignoring the Iraq issue, the market clearly sees the recent rise as a blip. Oil has been in a state of backwardation for some time, the technical term for when spot prices are higher than forward prices.

As Mr Keith Skeoch, chief economist at broker James Capel, says "this has been the first time in many years that oil has followed the seasonal pattern, thanks to a combination of a cold winter and a shortage of stocks."

Mr Geoff Pyne, oil analyst at UBS, says there was extra demand for heating oil of 600,000-700,000 barrels a day because of cold weather in the US and Europe in January and in Europe in February. Also, companies had moved to just-in-time inventories, putting pressure on supply.

Oil's effect on inflation is muted these days by heavy taxation, especially in Europe, which makes the cost of crude only a small component of the price at the pump. A sluggish world economy, in which producers find it hard to pass cost increases on to consumers also softens the impact.

In any case, Mr Mehdi Varzi, director of oil and gas research at Kleinwort Benson, expects the spot price to slide back to $16-$17 by the end of the year and to remain subdued for some time, as production by non-Opec members continues its steady rise.

Oil is set to slip back and few other resource prices are motoring. The Economist commodity index fell 7.3 per cent in 1995 and has risen a measly 0.8 per cent this year.

So why are some people still bullish on commodity investment, to the extent that new specialist funds are reportedly being launched in the US? There are some technical factors. Mr Steve Strongin of Goldman Sachs in New York points out that, even though the one year forward price of oil has gone nowhere for a year, it was possible, because of backwardation, to make profits of more than 50 per cent last year by buying the short-term forward contracts and rolling them over.

More fundamentally, some believe that world economic growth is set to rebound, particularly in the light of the monetary easing in Japan, the US and Europe. "Current forecasts have the major economies at or above trend growth rates at the end of 1996, or the beginning of 1997. This would be the first time since the early 1970s when all parts of the world were growing at reasonable rates at the same time", says Mr Strongin.

Longer term, the demand for commodities from emerging markets, where economies are often growing at 6-10 per cent a year, may put pressure on supplies. The potential demand from China alone is likely to have massive effects on commodity markets.

The standard answer to this issue is that in the past new supply has consistently been produced, or discovered, to meet increased demand. But maybe the picture is changing. An example could be the grain markets. There was a bad harvest in 1995 but according to Mr Strongin, "since 1988-89, the rate of increase in yield per acre has levelled out. The trend in demand is exceeding the trend in production."

"In previous years", he says, "if one grain had a bad year, farmers could take land out of production from other crops and switch. But that is difficult when all crops are tight."

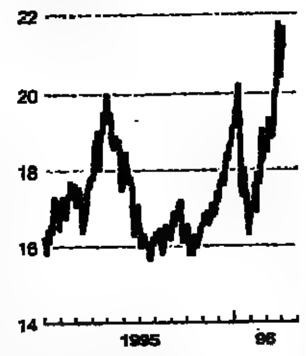
The result has been that world wheat stocks are reaching their lowest levels for 20 years, according to projections from the International Grains Council. According to Datastream, the wheat price has risen by 42 per cent, and the corn price by 70 per cent over the last 12 months.

But given the role of hedge funds, and the increasing use of commodities as a diversification play within institutional portfolios, physical demand for commodities may be less important that speculative demand.

The liquidity which has been flowing through world financial markets, and has played a significant part in taking the Treasury bond yield down to 6 per cent and carrying the Dow Jones Industrial average up to all-time highs, might yet flow into commodity markets. Contrarian investors could at least spare the idea some thought.

**Oil price**

Brent blend crude, $ per barrel




Source: Datastream

**Total return in local currency to 3/4/96**

| | % change over period US | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| **Cash** | | | | | | |
| Week | 0.10 | 0.01 | 0.06 | 0.08 | 0.19 | 0.12 |
| Month | 0.44 | 0.06 | 0.28 | 0.35 | 0.82 | 0.52 |
| Year | 6.88 | 1.69 | 5.06 | 7.39 | 11.92 | 7.69 |
| **Bonds 3-5 year** | | | | | | |
| Week | 0.23 | 0.04 | 0.07 | 0.20 | 0.56 | 0.27 |
| Month | -1.47 | 0.37 | 0.23 | 0.33 | -0.42 | -0.90 |
| Year | 9.18 | 5.19 | 11.18 | 13.64 | 20.86 | 11.41 |
| **Bonds 7-10 year** | | | | | | |
| Week | 0.36 | 0.35 | 0.23 | 0.30 | 0.76 | 0.50 |
| Month | -2.15 | 0.65 | 0.14 | 0.55 | -0.68 | -1.24 |
| Year | 11.49 | 6.74 | 12.13 | 16.58 | 29.23 | 11.60 |
| **Equities** | | | | | | |
| Week | 1.1 | 1.2 | -0.8 | 1.5 | 1.5 | 1.5 |
| Month | -1.8 | 5.0 | 0.3 | 2.6 | -4.9 | 0.9 |
| Year | 33.8 | 32.7 | 30.0 | 16.8 | 0.0 | 23.6 |

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit.
The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

**COMPANY RESULTS DUE**

## Suez fails to meet previous chairman's commitment

■ **Suez:** The French industrial and financial holding company, will today report a 1995 net loss of FFr3.7bn-FFr4.1bn ($740m-$820m), according to analysts' forecasts.

The results will mean the group is unable to deliver on last year's commitment by Mr Gerard Worms, previous chairman, to achieve an "acceptable" level of earnings in 1995 after four "hellish" years of losses in the property sector.

Suez made a net loss of FFr4.8bn in 1994 after taking what were then described as once-and-for-all provisions on its exposure to the property market.

However, after a change of chairman in July, Suez went on to set aside further property provisions of FFr4.1bn in its first-half 1995 accounts, leading to a first-half net loss of FFr3.9bn.

New chairman Mr Gerard Mestrallet said at the time of the first-half results that he expected the group to break even in the second half, leading to a full-year net loss of around the first-half level. Analysts' forecasts are centred on this figure.

Most analysts are looking for Suez to maintain its net dividend at FFr8.2 as a mark of confidence in the future, as it did in 1994. *AFX, Paris*

■ **Fortis:** The Dutch-Belgian financial services group, is expected to report on Thursday 1995 net profit of Ecu630.3m-Ecu696m ($756m-$835m) compared with Ecu549.1m a year earlier, according to Dutch analysts' forecasts.

Dividend forecasts are in a range of Fl 3.95-Fl 4.55 for 1995 and Fl 4.40-Fl 4.80 in 1996 for Fortis Amev, against Fl 3.80 in 1994, and BFr82-83 in 1995 for Fortis, against BFr74.25 in 1994.

Belgian analysts said they expected a BFr11.3bn-BFr11.5bn ($373m-$379m) net profit for Fortis AG against BFr10.1bn in the previous year.

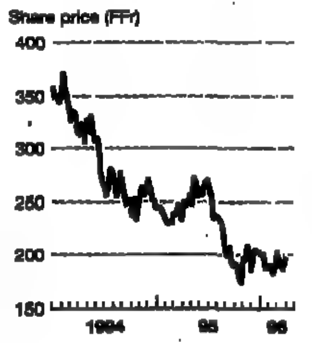
Analysts said they expected Fortis to report net profit up 14.8 per cent at Ecu630.3m, a sharper rise than the 7-12 per cent increase forecast by the company at the time of its third-quarter report.

Analysts expected Fortis Amev's net profit to rise 11 per cent to Fl 695.2m from Fl 626.4m a year earlier, with earnings per share up at Fl 9.65 from Fl 8.74, and a 1995 dividend of Fl 4.20 against Fl 3.80.

The group's life insurance activities would put in a good performance, helped by "exceptionally good" cost controls, analysts said. Non-life results would be favourable as the company has restructured its portfolio. *AFX, Amsterdam*

**Suez**

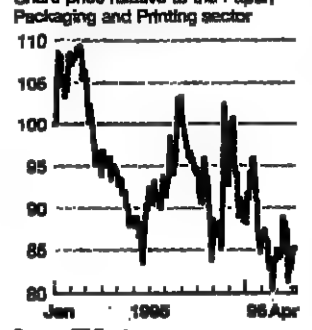
Share price (FFr)




Source: FT Extel

**Jefferson Smurfit**

Share price relative to the Paper, Packaging and Printing sector




Source: FT Extel

■ **Dewhirst International:** The UK garment supplier to Marks and Spencer, is today expected to announce pre-tax profits of £22m ($33m), giving earnings of about 11.5p.

Analysts will be looking at the impact of raw material price rises on profits and an outlook statement on the likely direction of these costs this year. The unusually hot weather last summer is likely to have had an effect on demand as well as the generally weak consumer market. Margins will be examined and compared with other M & S suppliers, some of whom have been forced to announce hefty restructuring charges in their accounts for 1995.

■ **Jefferson Smurfit:** The Irish paper and packaging group, is tomorrow expected to report annual pre-tax profits between I£405m and I£415m ($658m). Further news on management changes are also expected following reports that Mr Michael Smurfit, chairman and chief executive, is about to appoint a new operations director.

■ **Alpha Airports:** The loss of a flight services contract with British Airways at John F. Kennedy airport in New York last August is expected to hold back profits at the UK airline services company. Pre-tax profits of just under £21m ($32m) will be reported tomorrow, compared with £21.4m. The City is also expecting an increase in the dividend and an upbeat statement on DynAir, the US aviation services group acquired in August.

■ **Yule Catto:** The UK chemicals and building products group, is expected to announce pre-tax profits of £35m ($53m) tomorrow, giving earnings per share of 20.3p. Analysts will be looking to see how the group has weathered raw material price pressures which have been experienced by the sector. At the interim stage, the group said it had been able to pass on most of its raw material costs and offset margin squeezes with strong sales growth.

■ **Amec:** The UK contractor, is expected on Thursday to announce annual pre-tax profits at or slightly below last year's £20m ($30m). In a December defence document against the Kvaerner bid, it said it expected to make £20m, but the costs of fighting off the bid may have hit that. Demand levels will also be examined for the effect of de-stocking by customers. Amec is expected to rebound in 1996, with profits reaching £35m or higher, as it has restructured its housing wing and settled the loss-making Tiffany oil platform contract.

■ **Nurdin & Peacock:** The UK cash and carry operator, will report profits on Thursday of £19m-£20m ($30m). This is in line with the profits warning in February, when Mr Nigel Hall, the finance director, resigned after losing the confidence of the board. In 1994, profits halved to £16.5m after exceptional charges. The share price has been supported by bid speculation for at least a year. Booker, which has 23 per cent of the market compared with N&P's 17 per cent, said last month that one or more of its cash and carry competitors would disappear over the next few years.



**INTERNATIONAL EQUITIES** By Richard Lapper

## A rush of Latin American issues

Latin American companies are taking advantage of the increased investor enthusiasm for emerging markets.

Last week's $100m issue of American Depositary Receipts by Euridis-Disco, an Argentinian supermarket chain, followed hard on the heels of Quilmes Industrial which in late March raised $166.7m with Argentina's first equity issue since August 1994.

Chile's Enersis, an electricity generator and distributor, has also raised $111m this year, while Mexican companies have raised $310m. If a $250m issue of mandatory exchangeable debenture securities, a note which has to be converted into equities, by Nortel, the holding company of Telecom Argentina, is included, issuance already outstrips activity for all of last year. IFR Securities Data lists 18 issues in 1995 for a total of $754m.

There are other big issues in the pipeline. Bankers in Lima say that Peru's biggest equity issue, the government's sale of its 29 per cent cent stake in Telefonica, is on track to take place before the end of June, bringing it to the market ahead of other large international telecommunications issues such as Deutsche Telekom.

Although there was some concern about the timing of the issue, developments over the past few weeks make the issue more rather than less likely to take place on schedule. Last week's resignation of Mr Dante Córdova, the Peruvian prime minister associated with the more populist wing of Mr Alberto Fujimori's government, should reassure foreign investors about the administration's economic direction. Ironically, earlier concerns about government divisions appear to have helped the privatisation process.

Bankers say these worries help explain a fall of some 15 per cent in the prices of both the Lima stock market as a whole and Telefónica shares since early February.

In turn that has reduced government expectations about the amount that can be raised, with bankers now expecting to raise $1.3bn rather than the $1.5bn suggested earlier.

The Peruvian programme to raise funds from retail and institutional investors is now expected to raise between $200m and $300m, reducing the amount being sought in international markets possibly to as little as $1bn. Bankers say that global coordinators – Merrill Lynch and JP Morgan, together with Peru's Banco de Crédito which will handle a domestic offer – are confident they can raise these funds in one operation. About 70 per cent of the international tranche is expected to be placed in the US market.

Despite this, there are still some grounds for caution. The depositary receipts of Quilmes, the first Argentine issuer to come to the markets since July 1994, were sold at a 12.5 per cent discount to the group's underlying share price, while the coupon on the Nortel convertible was also higher than market talk had indicated. Investor demand for new issues is still coming mainly from specialist Latin American funds, rather than the broader group of investors, including US mutual funds which plunged into the market in 1993 and 1994. And even these specialists investors are more wary than they were.

"Investors are very cautious about increasing their exposure. A lot of people were burned big time in 1994 and are sceptical about dipping their toes into the water," says one New York-based syndicate manager. He adds that apart from Telefonica and the Brazilian Companhia Vale do Rio Doce, the Brazilian mining giant which could come to the market this year, deals of $100m-$150m are likely to be the norm for Latin issues.

He predicts a likely overall issuance from Latin America of no more than $2.5bn, a long way short of the $6bn-plus achieved in 1993.

# MARKETS: This Week

## NEW YORK By Richard Waters

After the pounding induced by last Friday's employment figures, and ahead of news of an expected pick-up in inflation, US financial markets are likely to remain in distinctly jittery mood.

It was the bond market's reaction to employment growth in March – as much as the growth itself – that seems to point to further pressure on fixed income prices. While non-farm payrolls grew, on average, by more than 200,000 in each of the first three months, the increase was less than in the first quarter of 1995. Other indicators, such as hours worked and earnings growth, seemed to point to more modest economic growth.

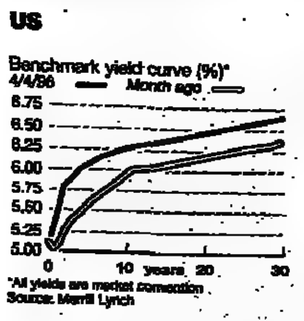
If the bond market bears are back in the ascendant, they are likely to have more data to feed their pessimism late in the week. A rise in energy and food prices is expected to have boosted both producer and consumer prices during March.

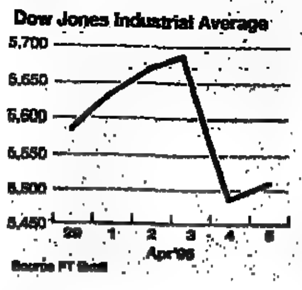
Most Wall Street economists expect March's producer price index, due on Thursday, to register growth of 0.4-0.5 per cent, or 0.1-0.2 per cent excluding the food and energy components. The consumer price index a day later is expected to show a rise of 0.4 per cent (or 0.3 per cent without food and energy.)

March retail sales figures, also due on Thursday, will also be closely watched, after February's 0.8 per cent jump.

While stock market investors are likely to remain fixated by the mood in the bond market, their attention will begin to take in corporate earnings with the advent of the first-quarter results season. The recent stirrings of renewed economic growth are generally expected to feed through into higher corporate earnings only in the second half of the year. Meanwhile, most companies, particularly those in cyclical industries, are expected to register little profit growth.

**US**




## LONDON By Philip Coggan

Takeover talk returned to bolster the equity market in the approach to Easter, helping the FT-SE 100 index climb back above 3,750 and the Mid-250 to record four successive all-time peaks.

The market will be keen this week, as the new tax year starts, for some of the talk to turn into hard cash. Some of last week's bid candidates, such as Pearson, the media group which owns the Financial Times, have been through the rumour mill before.

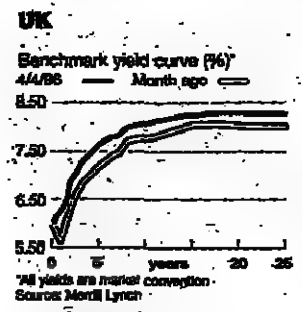
Dealers were suggesting last week that heavy programme trades would be generated as institutional investors adjusted their asset allocation at the start of the new tax year and invested the personal equity plan money which normally flows in before April 5.

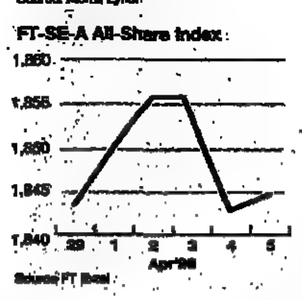
With few corporate results being published, attention is likely to be focused on macro-economic factors. Equities and gilts will have the chance to respond to Friday's strong US non-farm payroll numbers, which were published when London was closed.

In domestic terms, the important data is published today, with details of February industrial production and manufacturing output expected to reveal a modest rebound. Last week's meeting between Eddie George, governor of the Bank of England, and Kenneth Clarke, chancellor of the exchequer, brought no policy change and many in the market believe interest rates are unlikely to be cut further.

Gilts, which recovered late last week from the aftermath of the BSE scare, are unlikely to be helped by the south-east Staffordshire by-election, which is expected to result in defeat for the Conservative candidate and reduction of the government's parliamentary majority to one.

**UK**




## FRANKFURT By Wolfgang Munchau

The optimism of the last few weeks appears to have disappeared as analysts and commentators warn that the DAX share index has reached a plateau from which it can only descend.

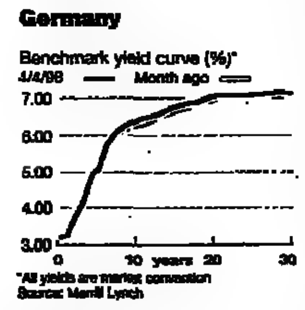
The index has hovered around the 2500 mark for some time, and with thin trading during the long Easter holiday season few observers expect the stock market to move much in either direction. Surveys show that a growing number of analysts believe the DAX may be close to its peak for the year. There is even talk among some analysts that the chemical sector, a spectacular performer so far this year, may be due for a revision.

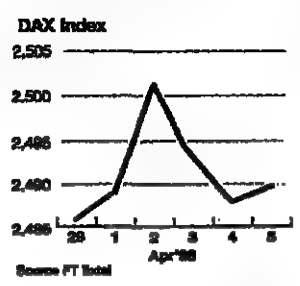
Among German corporates, most interest will focus on Daimler-Benz, the automotive group which this week will hold its annual news conference to explain in greater detail why it lost DM5.7bn ($3.8bn) in 1995 and why it expects to a make a substantial profit this year. The week is unlikely to see much interest rate speculation, as the Bundesbank remains in Easter mode until the end of the week, with the customary rhythm of fortnightly council meetings not due to resume until next week.

In the meantime, there is likely to be more bad economic news, at least in headline terms, with the forthcoming release of the unemployment data for March. Forecasters expect the headline figure, which hit a record of 4.3m in February, to rise again, while seasonally adjusted unemployment might fall, although this figure attracts little attention inside Germany itself.

Last week's news of a fall in industrial production in February confirms what everybody knew anyway: the German economy contracted during the first quarter of the year.

**Germany**




## TOKYO By Emiko Terazono

Tokyo's financial markets have become increasingly sensitive to news of rising interest rates at home and overseas and stock and bond prices are expected to be influenced particularly by the economic outlook in the US.

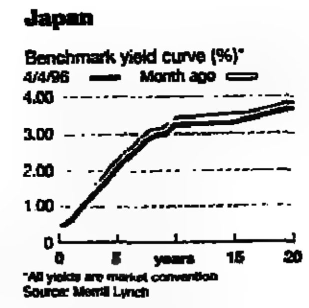
Japanese shares are vulnerable to a rise in US interest rates since US pension funds have been active buyers of Japanese shares. Meanwhile, a rise in Japanese short term rates would also prompt turmoil since US hedge funds are investing money in international financial markets by borrowing yen and changing them into dollars.

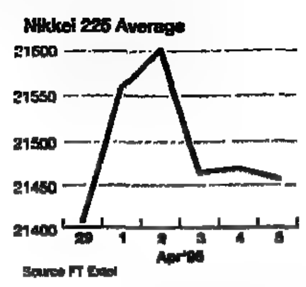
Although comments last week by Mr Yasuo Matsushita, governor of the Bank of Japan, were interpreted by market participants as a move to pave the way for higher interest rates, most investors do not expect the central bank's monetary policy to change immediately. Recovery in the manufacturing sector remains fragile while problems in the banking sector are expected to drag on.

The demand and supply trend, meanwhile, is likely to be affected by a move towards stock investments by domestic institutions. "The asset-allocation pendulum is about to swing back in the direction of stocks because the over-weighting of stocks at several classes of institutions appears to have come to an end," says Mr Marshall Gittler at Merrill Lynch in Tokyo.

Life insurance companies, which have been the leading buyers of bonds in the past two years, have drastically reduced their allocations. However, the allocation at the start of the new business year may trigger a short-term rally this month as pension funds and other domestic institutions place new funds. Buying by the finance ministry's trust fund bureau may also give the bond market a brief boost.

**Japan**




## COMMODITIES By Richard Mooney

# Cocoa traders look for demand

The renewed strength of the cocoa market just before the Easter break could be given a fillip today or tomorrow when German and UK first-quarter bean grindings figures are published.

Last week's price rise, which pushed second position futures at the London Commodity Exchange through the £1,000-a-tonne barrier, was helped by news of a 10.46 per cent rise in Dutch January-March grindings, compared with the same period last year, to 100,866 tonnes, at the top end of the forecast range.

The German grind is expected to be little changed, so any substantial rise could help to give renewed impetus to cocoa's rally, which flagged somewhat in late trading on Thursday. Dealers have predicted a 10 per cent year-on-year rise in the UK figure, so anything in excess of that would be helpful.

● Other events this week include the publication today of the Australian Bureau of Resource Economics' forestry statistics.

Tomorrow London Metal Exchange traders will be looking out for the International Primary Aluminium Institute's February stocks statistics.

On Thursday the four-day International Rubber Marketing Conference will begin in Phuket, Thailand.

Next Sunday sees the opening of Metal Bulletin magazine's 9th International Copper Conference in Salt Lake City, Utah. Delegates at the three-day event will be hoping to hear something to change the somewhat bearish perception that has developed around the copper market of late. As LME warehouse stocks have continued to rise and the nearby supply tightness that had been propping up copper values has eased, analysts have generally come to take a downbeat view of the industry's price prospects.

Last week's slide in LME copper prices was halted on Thursday, but traders told the Reuters news agency that the modest upturn reflected pre-holiday book-squaring and saw the move as temporary correction in an over-sold market that remained in a longer term downtrend.

## OTHER MARKETS Compiled by Michael Morgan

### PARIS

While the equity market has been showing all the signs of coming to life with the spring, some observers continue to worry about the state of the economy, *writes John Pitt*.

Recent data, notes James Capel, hints "that the worst of the country's growth pause may be over". The data suggests that business confidence is picking up, while manufacturing output is also improving. Also indicated is a trend that the pace of increase in unemployment might be falling once more. "Further pointers to the worst being over," says Capel's economics team, "are a possible bottoming out in the OECD's leading indicator for France, and a pick-up in M1 growth. Although the recent indicators have presented a more upbeat picture, they do no more than support our soft 1.2 per cent growth forecast for 1996. The indicators are not consistent with the economy taking off like a rocket, and the picture will continue to be one of rising unemployment and an over-shooting budget deficit, leaving the franc vulnerable."

### ZURICH

Full-year results on Wednesday from Crossair, the regional airline subsidiary of Swissair, will keep attention focused on the national flag carrier. Swissair's registered shares rose 60 per cent in the first three months of the year before pausing for breath in the last week of March. Last Thursday, they were up again, jumping 4.7 per cent in response to the company's announcement of a higher than expected rise in operating profit, but also a much larger than expected restructuring provision. UBS's response to the result was to confirm its buy recommendation and to raise its 1996-98 earnings forecast. The bank noted that the SFr340m ($284m) charge for cost cutting and profit improvement measures over the next 2½ years were taken as a one off, which contrasted with Swissair's previous accounting policy. But it added that the provision should have a pay-back period of two to three years and result in an increase in earnings before interest and taxes of SFr500m.

UBS will also be in focus on Wednesday as the bank meets financial analysts and the press, before its annual shareholders meeting next week. However, hopes that the bank might be moving towards some accommodation with Mr Martin Ebner, head of the Zurich-based BZ banking group, and a fierce critic of the bank's management and performance, were dashed last week with a further volley of shots from both sides. Mr Ebner, who is fighting a legal battle to stop UBS introducing a single bearer share structure, reiterated that he would oppose the election of Mr Robert Studer as chairman of the bank. Mr Studer said that the profit maximising strategy proposed by BK Vision was short sighted, and would lead to UBS's failure.

### HONG KONG

Brokers are bracing themselves for a potential sell-off today after Friday's release of US jobs data, *writes Louise Lucas*. When strong employment figures were reported in the US last month – which suggest a growing economy, and a reduced likelihood of a cut in interest rates – Hong Kong's benchmark Hang Seng Index shed 820 points.

A cut in interest rates in Hong Kong – whose currency is pegged to the dollar – would spur the moribund property market and this would feed through to the stock market, which is heavily exposed to properties.

As the recent round of corporate results showed, internal incentives to buy are limited. While earnings continued to grow in double digits, an increasing number of blue chips relied on one-off exceptionals to boost earnings.

Hongkong Telecom, majority owned by Cable & Wireless, is expected to remain a focus of attention as its parent's merger talks with British Telecommunications continue.

## CURRENCIES By Philip Gawith

# Traders hope for more activity after quiet quarter

Traders will return to their desks this morning hoping that the second quarter will offer more volatility than the unusually quiet first quarter.

In recent weeks, the market has had two items to focus on: the end of the Japanese financial year, and the March US employment report. Both have now come and gone, and excuses are running thin for the absent dollar rally.

The week will doubtless start with traders trying to assess the foreign exchange implications of Friday's stronger than expected US payrolls report. It has set back the prospect for lower interest rates, but given that the dollar has now decoupled from the bond market, the currency implications are unclear.

Options market activity suggests that the market still believes the dollar is more likely to break up than down, but the trigger for such a move is not yet apparent. One old market sage believes that in the past, such periods of calm have never lasted beyond the second week of May.

A survey last week by the financial consultancy IDEA found that the median forecast for the dollar against the yen in two months time was Y109, the highest reading in more than two years. The survey contained further good news for dollar bulls: 73 per cent of respondents believed investors and customers to be underweight in the D-Mark. The last such reading was on January 27 1994; two weeks later the dollar reached a significant high of DM1.7685 against the D-Mark.

In terms of data, dollar watchers may well focus on the Japanese current account figures rather than on the US inflation and retail sales figures.

In Europe, the meeting of the Bank of France council on Thursday could result in an interest rate cut. The franc is at its highest level against the D-Mark in two years, so that would not present an obstacle.

In the UK, meanwhile, the by-election on Thursday could cause some jitters in sterling markets, given that it is likely to result in the government's majority being cut to one.

## CROSS BORDER M&A DEALS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE | COMMENT |
|---|---|---|---|---|
| Mr David Gilo (US) | Scitex Corp (Israel) | Printing products | $856m | Unwanted offer |
| AEA Investors (US) | Mettler Toledo (US) | Lab equipment | $767m | Ciba disposal |
| Ashanti Goldfields (Ghana) | IGR (Canada) | Mining | $100m | Agreed bid |
| Sea Containers (Bermuda) | IoM Steam Packet Co (UK) | Transport | $71m | Cash/paper deal |
| APN (Australia) | Radio New Zealand (NZ) | Broadcasting | $61m | Leads winning bid |
| MasTec (US) | Sintel (Spain) | Telecoms | $40m | Telefónica divests |
| KPN (N'lands) | Coventry Cable (UK) | Cable | $36m | Cable consolidation |

## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Thursday, April 4, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

| | | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|---|
| Afghanistan | (Afghani) | 7255.83 | 4750.00 | 3208.36 | 4439.25 |
| Albania | (Lek) | 151.681 | 99.3000 | 67.0718 | 92.8037 |
| Algeria | (Dinar) | 81.7601 | 53.5254 | 36.1538 | 50.0237 |
| Andorra | (French Fr) | 7.7040 | 5.0435 | 3.4066 | 4.7136 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Greece | (Drachma) | 367.585 | 240.645 | 162.543 | 224.902 |
| Greenland | (Danish Krone) | 8.7305 | 5.7155 | 3.8605 | 5.3416 |
| Grenada | (E Carib $) | 4.1243 | 2.7000 | 1.8237 | 2.5234 |
| Guadeloupe | (Local Fr) | 7.7040 | 5.0435 | 3.4066 | 4.7136 |
| Guam | (US $) | 1.5275 | 1 | 0.6754 | 0.9346 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Pakistan | (Pak. Rupee) | 52.7681 | 34.5454 | 23.3335 | 32.2854 |
| Panama | (Balboa) | 1.5279 | 1 | 0.6754 | 0.9346 |
| Papua New Guinea | (Kina) | 1.9916 | 1.3038 | 0.8806 | 1.2185 |
| Paraguay | (Guarani) | 3070.26 | 2010.00 | 1357.65 | 1878.50 |
| Peru | (New Sol) | 3.5965 | 2.3545 | 1.5903 | 2.2005 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

Special Drawing Rights April 3, 1996 United Kingdom [illegible] United States [illegible] Germany [illegible] Japan [illegible] European Currency Unit Rates April 4, 1996 United Kingdom [illegible] United States [illegible] Germany [illegible] Japan [illegible]

Abbreviations: [illegible] To obtain a copy of this table by Fax from the Cityline service dial [illegible] Thursday, April 4, 1996

EMERGING MARKETS By Vincent Boland in Prague

# Czechs plan tighter bourse rules

A curious advertisement appeared in a Czech newspaper last month. In it a Russian-born "financier", Mr Alim Karmov, informed more than 2,000 customers of his Prague-based Futurum Aurum investment house that he had "cheated" them out of nearly $5m of their savings, and begged their forgiveness.

He also asked them for extra funds to allow him to recover what had been lost.

In the days that followed hundreds of customers, many of them elderly, crowded into Mr Karmov's office demanding their money back. The handsome young entrepreneur, who does not speak Czech, assured them through an interpreter that he would recover it, but that he needed more of their money to do so.

Meanwhile, the Czech finance ministry, guardian of the country's fledgling and chaotic capital markets, looked on in bewilderment. The head of the ministry's market supervision section said there was no evidence that Mr Karmov had committed fraud, even though he had admitted as much in the advertisement. Eventually, the sight of weeping pensioners forced the ministry to intervene and to assure Futurum's clients that they would not be left penniless. Mr Karmov's activities were also to be investigated.

In fairness, this kind of thing does not happen every day in the country's capital markets. But the slow response of the authorities to what many commentators considered an obvious case of fraud sent a fresh chill through the spines of wary investors on the Prague bourse, where the sharks have taken to feasting on the minnows.

Enter Tomáš Ježek, an expansive, burly member of parliament and an architect of the mass coupon privatisation programme that has made the Czech Republic perhaps the biggest share-owning democracy in the world. Mr Ježek took over last week as chairman of the Prague stock exchange, vowing to clean up the market and make the world safe for minority shareholders, whether they be pensioners or portfolio managers.

Mr Ježek was appointed to the post – indeed, he was the only serious candidate – on the strength of his claim to be the champion of the small investor.

His trump card was a package of new rules for regulating the PSE, which he was instrumental in drafting and which are expected to be approved by parliament by the end of April.

The reforms seek to curb the widespread insider dealing and misleading trading and price data that have dogged the PSE's development, by setting new rules for the conduct of large investors in areas such as disclosure and the obligatory buy-out of minority shareholders.

Among the more important changes, an investor who acquires 50 per cent or more of a company must offer to buy out other shareholders; two-thirds of shareholders in a company must approve its delisting from the market; and an investor must disclose the size of any stake bigger than 10 per cent as well as notifying every change of 3 percentage points or more in that stake.

Investors have said the reforms, which are expected to be approved by parliament and to be in force by July 1, should help ease concerns about the fairness of the market.

In particular, it is hoped the new trading environment will persuade institutions, such as western pension funds, to invest in Czech stocks, which should boost share prices.

Mr Ježek has the backing of many of the PSE's independent brokers and foreign portfolio investors for his campaign to regulate the market. But he is likely to find enforcement of the new rules more difficult than their drafting, although as the bourse's first full-time chairman he will be in a strong position to try.

Enforcement is the key to the success of the reforms, but there is no guarantee that it will be forthcoming. Mr Vladimir Rudlovčák, deputy finance minister in charge of capital markets, said the ministry was planning "no substantial" strengthening of its market supervision section, which has been attacked for lax monitoring, to ensure greater enforcement.

The supervisory section currently has 65 people overseeing a fast-developing market, but few of them have any real experience of capital markets operations. The ministry has rejected, at least for the moment, the creation of an independent market watchdog – modelled on the lines of the US securities and exchange commission – to monitor the activities of 450 investment funds and thousands of individual investors and portfolio managers.

Mr Rudlovčák said the rules expected in July would "take a year to absorb", after which the ministry might reconsider setting up an independent market watchdog. He also said he disagreed in principle with aspects of the package, especially the rule on buying out minority shareholders, which he said could prevent a consolidation of the PSE's 1,800 issues.

That view is not widely accepted. Ms Petra Wendelova, vice-president of investment banking at CS First Boston in Prague and an adviser to Mr Ježek on the reform package, said the new rules "will not have any drawbacks for either liquidity or ownership restructuring in the market".

Bankers say the current lack of adequate supervision is hurting Czech shares. Mr Zdenek Bakala, chairman of the investment bank Patria Finance, said that despite a better economic environment, Czech stocks were underperforming those in Poland *and Hungary by a factor of* three or four because of the market's structural problems.

In addition to regulation, Mr Bakala said, the exchange also needed to tackle misleading price data, which suggests the widely-quoted PX50 index of leading shares may also be an inaccurate barometer of market activity.

"Nobody trusts the stock exchange prices and the index suffers from this. It is based on *figures that are dubious*," he said.

ING BARING SECURITIES EMERGING MARKETS INDICES

| Index | 4/4/96 | Week on week movement Actual | Week on week movement Percent | Month on month movement Actual | Month on month movement Percent | Year to date movement Actual | Year to date movement Percent |
|---|---|---|---|---|---|---|---|
| World (385) | 166.78 | +0.85 | +0.54 | +0.41 | +0.26 | +9.22 | +6.25 |
| **Latin America** | | | | | | | |
| Argentina (22) | 92.10 | +0.67 | +0.73 | -2.43 | -2.57 | -0.67 | -0.73 |
| Brazil (23) | 209.37 | +0.50 | +0.24 | -7.78 | -3.58 | +23.27 | +12.51 |
| Chile (16) | 171.22 | -2.72 | -1.56 | -12.50 | -6.80 | -24.45 | -12.49 |
| Colombia (14) | 158.51 | -0.77 | -0.48 | -9.50 | -5.65 | -5.74 | -3.49 |
| Mexico (23) | 82.64 | +0.51 | +0.62 | +6.13 | +8.01 | +9.05 | +12.30 |
| Peru(14) | 1,044.64 | +24.10 | +2.36 | -44.91 | -4.12 | -24.32 | -2.27 |
| Latin America (112) | 129.84 | +0.41 | +0.31 | -1.38 | -1.05 | +6.70 | +5.44 |
| **Europe** | | | | | | | |
| Greece (18) | 109.76 | -2.15 | -1.92 | -1.67 | -1.50 | +11.79 | +12.08 |
| Portugal (20) | 128.56 | -0.25 | -0.19 | +2.45 | +1.95 | +12.10 | +10.39 |
| Turkey (26) | 129.33 | +14.06 | +12.20 | +12.60 | +10.79 | +46.53 | +56.20 |
| South Africa (32) | 149.93 | -6.73 | -4.30 | -5.90 | -3.78 | -3.45 | -2.25 |
| Europe (96) | 126.17 | -2.79 | -2.16 | -2.05 | -1.60 | +4.64 | +3.81 |
| **Asia** | | | | | | | |
| China (24) | 46.21 | +1.40 | +3.13 | -2.39 | -4.92 | +5.89 | +14.60 |
| Indonesia (32) | 151.22 | +5.05 | +3.46 | -0.85 | -0.56 | +12.57 | +9.07 |
| Korea (23) | 134.03 | -0.01 | -0.01 | +0.82 | +0.62 | -2.88 | -2.10 |
| Malaysia (24) | 258.42 | +0.98 | +0.38 | +6.05 | +2.40 | +31.05 | +13.65 |
| Pakistan (14) | 79.98 | -1.97 | -2.41 | -10.61 | -11.71 | +6.38 | +8.67 |
| Philippines (14) | 299.66 | +8.41 | +2.89 | +5.57 | +1.89 | +40.50 | +15.63 |
| Thailand (25) | 264.96 | +10.85 | +4.27 | +6.85 | +2.95 | +13.10 | +5.20 |
| Taiwan (31) | 134.32 | +3.75 | +2.88 | +11.25 | +9.14 | +3.49 | +2.67 |
| Asia (167) | 219.71 | +4.42 | +2.05 | +5.08 | +2.36 | +16.67 | +8.21 |

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.



INTERNATIONAL BONDS By Samer Iskandar

# Convertible issuance pace begins to accelerate

The pace of convertible bond issuance accelerated sharply in the first quarter of 1996. According to IFR Securities Data, 62 deals worth $10.53bn were issued in the international marketplace, compared with 24 issues amounting to $1.81bn in the first quarter of last year and a total of $17.82bn in 1995.

"Market sentiment was at its lowest in the first quarter of 1995. Issuance only picked up after traders became convinced that the bear market was over, and this took a few months," said one strategist.

In January, analysts had anticipated the resurgence of equity-linked bond issues, citing favourable market conditions. Record lows in bond and equity yields were seen as encouraging factors for borrowers, while investors sought guarantees on their capital after the substantial gains achieved in 1995.

"Stock markets were looking over-valued. Investors were seeking buying opportunities, but demanded downside protection without having to give-up potential gains," said a syndicate manager at a US investment house.

Meanwhile, several large-scale redemptions of convertible bonds – including early retirement of callable paper – injected liquidity into *the already cash-rich market*.

Modifications in the structure of recent deals reflected a shift in the requirements of issuers. For example, conversion of the bonds into the underlying shares was made mandatory in some recent issues, such as Tokai Bank's Y100bn deal and Nortel's recent $250m issue. The latter, convertible into shares of Telecom Argentina, is the first Latin-American issue of mandatory exchangeable securities and only the second convertible issue in the region.

"This type of structure guarantees the timing and the amount of the capital input," said an analyst. The added certainty means the funds thus raised can qualify as tier-one capital. Large banks are therefore expected to be the most frequent issuers in this sector, in order to boost their capital adequacy requirements. Issuing mandatory exchangeable notes could also become an interesting alternative to block-trades for diversified groups looking to spin-off non-strategic activities.

Mandatory conversion is not new: it has been used successfully for many years in the Japanese and US domestic markets, where several liquid issues are traded. But ever-increasing funding requirements, notably in Japan, have recently led issuers to start looking for new sources of capital; thus the incursion into the euromarket.

Elsewhere, Rabobank pioneered a "niche market" in January by issuing the first *guilder-denominated* convertible bonds whose redemption price is linked to a stock market index, in case the holder decides not to convert to the underlying shares.

The issue was followed last month by a similarly-structured deal for Nederlandse Gasunie. The combined amount of both issues, Fl 400m, is modest but the transactions helped to confirm the existence of demand for such products. In addition to the guarantee on the initial capital and a coupon yield of between 4 and 4½ per cent, what attracted investors to these deals was the chance to benefit from the performance of the index, should the individual share underperform the market.

*Although this market* segment is likely to remain marginal, Rabobank says that "there is room in the domestic market for another couple of issues".

Analysts agree that a shift towards more complicated structures in euro-convertible bonds is taking place, but some believe it might be just a "passing fad". While this trend allows deals to match borrowers' needs more closely, *some market professionals* point out that "exotic" structures – in particular mandatory exchange – favour issuers to the detriment of investors, and warn that buyers could be driven away from the segment.

"The more we complicate a deal, the more we reduce the investor universe," said a continental European syndicate manager. "Some of them [investors] bought into *these deals reluctantly*," *said* one trader, "because liquid issues are scarce in the secondary market."

According to the head of syndication at an American investment bank, "many existing deals are now out of the money and behave like straight bonds. Dedicated convertible funds look for bonds with a conversion premium in the 10 to 40 per cent range, which is hard to find on the secondary market." He believes the last three months offered "exceptionally good market conditions, which allowed issuers to obtain advantageous terms", but fears that "we might be getting near the peak".

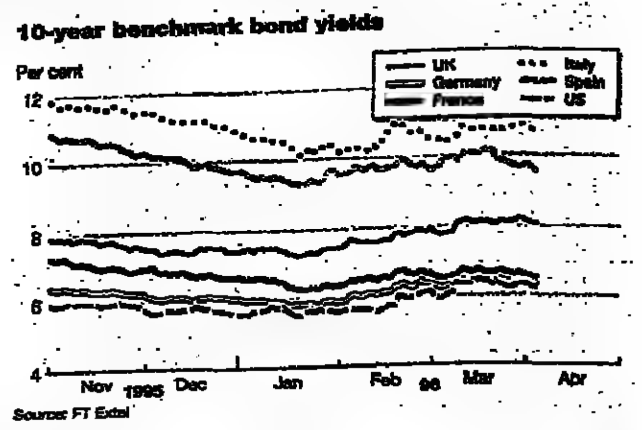
Signs of slowing investor appetite have been clear in the past few weeks. An issue of Deutsche Finance bonds convertible into shares of Allianz was twice oversubscribed last week, *according to market sources*, compared with a FFr3bn issue by Lyonnaise des Eaux which was more than 10 times oversubscribed a few weeks earlier.

Furthermore, most recent issues have shown poor performance after their launch. The Deutsche Finance paper was trading below its issue price at the end of last week and TB Finance's bonds convertible into shares of *Tokai Bank slipped to 99, a full* percentage point below their initial price, despite generous pricing at the cheapest end of the range announced by the lead manager.

The relatively cool reception observed on some of the latest issues is only one symptom of the possible weakening of demand. Heavy supply, expectations that monetary easing is coming to an end in Europe and the US, and *revisions to bullish* anticipations on stock markets are bound to make investors more selective in the future.

If these market trends are confirmed, "only the strongest names will be able to issue successfully", predicted a syndication official, "and over-complicated deals imposing excessive restrictions on the holders are not likely to see much demand".

10-year benchmark bond yields



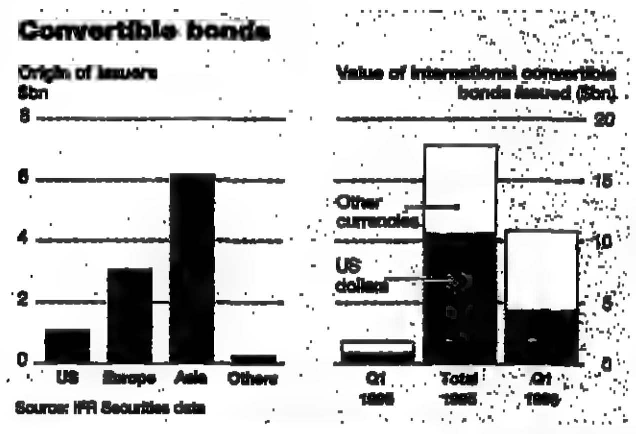
Source: FT Extel

INTEREST RATES AT A GLANCE

| | USA | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| Discount | 5.00 | 0.50 | 3.00 | 5.50(1) | 9.00 | 6.00(2) |
| Overnight | 5.31 | 0.47 | 3.25 | 3.93 | 9.74 | 5.75 |
| Three month | 5.14 | 0.56 | 3.25 | 4.03 | 9.75 | 6.06 |
| One year | 5.46 | 0.90 | 3.37 | 4.25 | 9.45 | 6.31 |
| Five year | 6.11 | 1.82 | 5.16 | 5.73 | 10.09 | 7.59 |
| Ten year | 6.33 | 3.13 | 6.40 | 6.58 | 10.61 | 8.06 |

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

Convertible bonds



Source: IFR Securities data

NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Maturity | Coupon % | Price | Yield % | Launch spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Westpac Banking Corp‡ | 600 | Apr 1998 | (c) | 100.00R | - | - | BZW |
| Skandia Insurance Co(d)‡ | 115 | Sep 2006 | (d1,s) | 100.00 | - | - | Chemical/JP Morgan |
| ICF 2, Class 1(e)‡ | 70 | Jan 2002 | (e1) | 99.838 | - | - | Morgan Stanley Intl |
| CCBP‡ | 250 | Apr 1997 | (h,i) | 100.00 | - | - | Merrill Lynch Intl |
| DSL Bank(j) | 100 | Apr 1999 | 6.00 | 100.016R | 5.990 | +30(7%-99) | BNP Capital Markets |
| Bank Rozwoju Eksportu‡ | 50 | Apr 1999 | (k) | 100.00 | - | - | Merrill Lynch Intl |
| ANZ Banking Group‡ | 300 | Apr 1998 | (c) | 100.00R | - | - | UBS |
| Metro Pacific Corp(q)§ | 125 | Apr 2003 | 2.50 | 100.00 | - | - | Merrill Lynch Intl |
| **D-MARKS** | | | | | | | |
| Deutsche Finance Neths(m)§ | 1bn | May 2001 | 1.00 | 88.64 | - | - | Deutsche Morgan G'fell |
| **YEN** | | | | | | | |
| TB Finance(Cayman)(a)§ | 100bn | Oct 2004 | 2.75§ | 100.00 | - | - | Salomon Brothers Intl |
| BankAmerica Corp(l)★ | 10bn | May 2001 | 2.40 | 100.00 | - | - | IBJ International |
| IBJ Bank Intl, Cayman★ | 10bn | Apr 1999 | 1.65 | 100.1075 | 1.765 | - | Nomura International |
| **SWISS FRANCS** | | | | | | | |
| Kio Corp(b,s)★§ | 65 | Sep 2000 | 0.375§ | 100.00 | - | - | Nomura Bank (Switz) |
| Nestlé Australia(f) | 100 | Dec 2000 | 3.00 | 101.20 | 2.716 | - | UBS |
| ABB International Finance(g) | 100 | Mar 2001 | 4.125 | 105.00 | 3.002 | - | Credit Suisse |
| SudwestLB Capital Markets | 200 | May 2006 | 4.375 | 102.75 | 4.036 | - | Credit Suisse |
| BNG | 200 | May 2006 | 4.375 | 102.75 | 4.036 | - | ABN Amro/Credit Suisse |
| Schindler Fin(Cayman)(n)§ | 170 | May 2001 | 2.50 | 101.625 | - | - | SBC Warburg |
| TransPower Finance(s) | 100 | Jan 2004 | 4.25 | 102.75 | - | - | Credit Suisse |
| European Investment Bank | 200 | May 2004 | 4.25 | 103.30 | 3.770 | - | SBC Warburg |
| **STERLING** | | | | | | | |
| Regal Hotel Group(u,§) | 50 | Jun 2006 | 9.00§ | 99.50R | 9.07 | +100(7½%-06) | Salomon Brothers Intl |
| **LUXEMBOURG FRANCS** | | | | | | | |
| Eurofima(j) | 2bn | Oct 2004 | 6.375 | 102.30 | 6.00 | - | BGL |
| Kredietcorp(p) | 2.5bn | Dec 2001 | 6.00 | 102.65 | 5.44 | - | Kredietbank Lux |
| **ITALIAN LIRE** | | | | | | | |
| European Inv Bank(r)‡ | 1000bn | Mar 2001 | (r1,s) | 99.85R | - | - | (r2) |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| Kingdom of Denmark | 60 | Apr 1998 | 7.75§ | 100.00 | 7.750 | - | LTCB International |
| DB Australia | 100 | Apr 1999 | 8.375 | 101.25 | 7.881 | - | Deutsche Morgan G'fell |
| **CANADIAN DOLLARS** | | | | | | | |
| Bayerische Hypobank(j) | 100 | Dec 1999 | 6.625 | 99.53R | 6.794 | +8(7¼%-99) | Hambros Bank |
| Oregon Finance | 100 | May 2002 | (t) | 99.94R | 7.15 | +11(7½%-01) | Kredietbank Intl Group |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. (Semi-annual) coupon and yield. R: fixed re-offer price. a) Exchangeable into common shares of Tokai Bank at Y1,397 conditional on 130% rule in 1st 5 yrs. Exchange price revision clause effective 5/10/01, 02 & 03. Mandatory conversion at maturity. b) Conv price: Y1,671. Callable on 31/3/99 at 105%, 30/9/99 at 103.25% and on 31/3/00 at 101.5%. Puttable on 31/3/99 at 105%. Callable from 31/3/97 subject to 150% hurdle. Conversion parity revision clause effective 12/5/97 & 11/6/98. c) 3-mth Libor flat. d) Callable from 1/9/01 at par. d1) 12-mth Libor +90bp to 1/9/01 and +240bp thereafter. e) Indosuez Capital Funding. Fungible with $215m. No accrued. Average life: 4.25 yrs. e1) 6-mth Libor +27½bp. f) Fungible with SFr200m. Plus 58 days accrued. g) Fungible with SFr125m. Plus 51 days accrued. h) 3-mth Libor -10bp. i) Over interpolated yield. j) Fungible with $250m. Plus 21 days accrued. k) 6-mth Libor +100bp. l) Long 1st coupon. m) Exchangeable from 2/5/96 into Allianz registered shares at DM3,404. Issuer has option to deliver cash. Callable from 2/5/99 at accreted value. n) Denom: SFr5,000 +30 wrts (expire 15/12/96). 10 wrts entitle holder to one bearer participation certificate at SFr1,500. o) 3-mth Libor flat. p) Oeffentliche Pfandbrief. q) Conversion price: pesos 6.75. FX: 26.105 pesos/$. Callable from 11/10/98, subject to 140% hurdle, at par. Puttable on 11/4/01 at 126.68%. Greenshoe: $10m. r) Fungible with L1,000bn. r1) 3-mth Libor -30bp. r2) Joint book-runners: BCI, BNL, Cariplo, Credito Italiano, JP Morgan and San Paolo, Torino. s) Short 1st coupon. t) 6.25% to 10/5/99 and 8.25% thereafter. u) Secured by portfolio of hotels. Note: Yields are calculated on ISMA basis.

# CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

| Apr 8 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | Day's Mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 15.9057 | -0.0317 | 977 - 196 | 15.9742 | 15.8962 | 15.8757 | 2.3 | 15.7882 | 2.8 | - | - | 106.8 |
| Belgium | (BFr) | 46.4598 | -0.1144 | 339 - 857 | 46.5830 | 46.4010 | 46.3548 | 2.7 | 46.1448 | 2.7 | 45.2248 | 2.7 | 107.9 |
| Denmark | (DKr) | 8.7342 | -0.0164 | 290 - 393 | 8.7582 | 8.7227 | 8.7226 | 1.6 | [illegible] | 1.7 | 8.5912 | 1.6 | 100.7 |
| Finland | (FM) | 7.0750 | -0.0164 | 689 - 830 | 7.0890 | 7.0640 | 7.0706 | 0.7 | 7.0625 | 0.7 | - | - | 82.6 |
| France | (FFr) | 7.7102 | -0.0116 | 061 - 142 | 7.7940 | 7.6999 | 7.6973 | 2.0 | 7.6747 | 1.8 | 7.5745 | 1.8 | 109.8 |
| Germany | (DM) | 2.2621 | -0.0044 | 610 - 631 | 2.2726 | 2.2575 | 2.257 | 2.7 | 2.2489 | 2.7 | 2.2001 | 2.7 | 109.9 |
| Greece | (Dr) | 367.154 | -1.061 | 957 - 350 | 368.820 | 366.611 | - | - | - | - | - | - | 66.8 |
| Ireland | (I£) | 0.9697 | - | 688 - 706 | 0.9711 | 0.9684 | 0.969 | 0.9 | 0.9675 | 0.8 | 0.9625 | 0.7 | 97.8 |
| Italy | (L) | 2388.66 | +0.04 | 711 - 020 | 2395.43 | 2382.55 | 2395.91 | -4.1 | 2412.01 | -3.9 | 2464.71 | -3.2 | 74.0 |
| Luxembourg | (LFr) | 46.4598 | -0.1144 | 339 - 857 | 46.5830 | 46.4010 | 46.3548 | 2.7 | 46.1448 | 2.7 | 45.2248 | 2.7 | 107.9 |
| Netherlands | (Fl) | 2.5260 | -0.0057 | 248 - 272 | 2.5383 | 2.5224 | 2.5201 | 2.8 | 2.5078 | 2.9 | 2.4561 | 2.8 | 108.3 |
| Norway | (NKr) | 9.8020 | -0.0042 | 930 - 109 | 9.8396 | 9.7875 | 9.793 | 1.1 | 9.7739 | 1.1 | 9.6782 | 1.3 | 98.9 |
| Portugal | (Es) | 232.934 | -0.506 | 774 - 095 | 233.784 | 232.834 | 233.359 | -2.2 | 234.284 | -2.3 | - | - | 95.6 |
| Spain | (Pta) | 189.340 | -0.233 | 240 - 440 | 189.716 | 189.125 | 189.775 | -2.8 | 190.595 | -2.7 | 193.44 | -2.2 | 82.2 |
| Sweden | (SKr) | 10.1738 | +0.0221 | 628 - 848 | 10.1848 | 10.1534 | 10.175 | -0.1 | 10.1767 | -0.1 | 10.1789 | -0.1 | 88.7 |
| Switzerland | (SFr) | 1.8254 | -0.0023 | 240 - 267 | 1.8296 | 1.8215 | 1.819 | 4.2 | 1.8063 | 4.2 | 1.7494 | 4.2 | 114.3 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 83.6 |
| Ecu | - | 1.2166 | -0.0013 | 159 - 172 | 1.2203 | 1.2147 | 1.2153 | 1.5 | 1.2123 | 1.4 | 1.1989 | 1.5 | - |
| SDR† | - | 1.04590 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5302 | +0.002 | 296 - 307 | 1.5321 | 1.5273 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.5110 | +0.0022 | 103 - 116 | 1.5122 | 1.5079 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.0783 | +0.0041 | 772 - 794 | 2.0795 | 2.0720 | 2.0776 | 0.4 | 2.0739 | 0.8 | 2.0659 | 0.6 | 84.8 |
| Mexico | (New Peso) | 11.5744 | +0.0705 | 668 - 820 | 11.6218 | 11.4947 | - | - | - | - | - | - | - |
| USA | ($) | 1.5307 | +0.0019 | 302 - 312 | 1.5323 | 1.5270 | 1.53 | 0.5 | 1.5286 | 0.5 | 1.5212 | 0.6 | 95.6 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.9563 | +0.0047 | 550 - 576 | 1.9576 | 1.9461 | 1.9588 | -1.6 | 1.9639 | -1.6 | 1.9891 | -1.7 | 91.6 |
| Hong Kong | (HK$) | 11.8359 | +0.0145 | 312 - 405 | 11.8473 | 11.8086 | 11.8276 | 0.8 | 11.8162 | 0.7 | 11.7964 | 0.3 | - |
| India | (Rs) | 52.1989 | +0.0283 | 033 - 905 | 52.5750 | 51.9660 | - | - | - | - | - | - | - |
| Israel | (Shk) | 4.7918 | +0.0016 | 878 - 957 | 4.7960 | 4.7824 | - | - | - | - | - | - | - |
| Japan | (Y) | 164.405 | +0.125 | 313 - 497 | 164.690 | 164.110 | 163.66 | 5.3 | 162.19 | 5.4 | 155.775 | 5.2 | 135.6 |
| Malaysia | (M$) | 3.8747 | +0.0047 | 729 - 765 | 3.8796 | 3.8653 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.2400 | +0.0009 | 381 - 419 | 2.2441 | 2.2360 | 2.245 | -2.7 | 2.2546 | -2.0 | 2.2995 | -2.2 | 108.6 |
| Philippines | (Peso) | 40.0738 | +0.0989 | 841 - 634 | 40.1642 | 39.9840 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.7409 | +0.007 | 387 - 431 | 5.7466 | 5.7272 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.1511 | +0.0035 | 496 - 526 | 2.1598 | 2.1465 | - | - | - | - | - | - | - |
| South Africa | (R) | 6.2644 | -0.0073 | 356 - 932 | 6.2953 | 6.2322 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1194.02 | +1.52 | 356 - 449 | 1195.19 | 1191.21 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 41.5685 | +0.0094 | 526 - 843 | 41.6096 | 41.5006 | - | - | - | - | - | - | - |
| Thailand | (Bt) | 38.6808 | +0.0799 | 529 - 087 | 38.7090 | 38.5870 | - | - | - | - | - | - | - |

† Rates for Apr 4. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Apr 8 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | Day's mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | J.P. Morgan index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.3911 | -0.034 | 893 - 929 | 10.4370 | 10.3880 | 10.3738 | 2.0 | 10.3376 | 2.1 | 10.1761 | 2.1 | 105.7 |
| Belgium | (BFr) | 30.3520 | -0.1135 | 450 - 590 | 30.4900 | 30.2980 | 30.299 | 2.1 | 30.1925 | 2.1 | 29.712 | 2.1 | 107.5 |
| Denmark | (DKr) | 5.7060 | -0.018 | 046 - 075 | [illegible] | [illegible] | 5.701 | 1.1 | 5.691 | 1.1 | 5.7135 | -0.1 | 107.9 |
| Finland | (FM) | 4.6221 | -0.0166 | 185 - 256 | 4.6412 | 4.6111 | 4.6156 | 1.7 | 4.6036 | 1.6 | 4.5581 | 1.4 | 82.2 |
| France | (FFr) | 5.0370 | -0.0141 | 380 - 390 | 5.0625 | 5.0221 | 5.0309 | 1.4 | 5.0211 | 1.3 | 4.978 | 1.2 | 108.3 |
| Germany | (DM) | 1.4776 | -0.0048 | 776 - 780 | 1.4865 | 1.4740 | 1.4751 | 2.2 | 1.47 | 2.1 | 1.4461 | 2.1 | 109.2 |
| Greece | (Dr) | 239.880 | -1 | 810 - 910 | 241.270 | 239.320 | [illegible] | [illegible] | 244.885 | [illegible] | 258.88 | -7.8 | 66.1 |
| Ireland | (I£) | 1.5785 | +0.002 | 775 - 795 | 1.5820 | 1.5740 | 1.579 | -0.3 | 1.5793 | -0.2 | 1.5687 | 0.6 | - |
| Italy | (L) | 1580.50 | -1.97 | 000 - 100 | 1588.00 | 1566.70 | 1586.55 | -4.7 | 1578.1 | -4.5 | 1619 | -3.7 | 73.5 |
| Luxembourg | (LFr) | 30.3520 | -0.1135 | 450 - 590 | 30.4900 | 30.2980 | 30.299 | 2.1 | 30.1925 | 2.1 | 29.712 | 2.1 | 107.9 |
| Netherlands | (Fl) | 1.6503 | -0.0057 | 500 - 505 | 1.6585 | 1.6470 | 1.6473 | 2.2 | 1.641 | 2.3 | 1.6139 | 2.2 | 107.7 |
| Norway | (NKr) | 6.4038 | -0.0109 | 998 - 073 | 6.4345 | 6.3893 | 6.4006 | 0.6 | 6.3951 | 0.5 | 6.3586 | 0.7 | 98.0 |
| Portugal | (Es) | 152.175 | -0.626 | 120 - 230 | 152.500 | 151.800 | 152.49 | -2.5 | 153.08 | -2.4 | 155.225 | -2.0 | 95.6 |
| Spain | (Pta) | 123.695 | -0.31 | 670 - 720 | 124.200 | 123.450 | 124.035 | -3.3 | 124.705 | -3.3 | 127.075 | -2.7 | 81.9 |
| Sweden | (SKr) | 6.6465 | +0.008 | 415 - 515 | 6.6584 | 6.6293 | 6.6575 | -2.0 | 6.675 | -1.7 | 6.717 | -1.1 | 88.4 |
| Switzerland | (SFr) | 1.1925 | -0.003 | 920 - 930 | 1.1976 | 1.1888 | 1.1888 | 3.7 | 1.1817 | 3.6 | 1.1497 | 3.6 | 113.9 |
| UK | (£) | 1.5307 | +0.0019 | 302 - 312 | 1.5323 | 1.5270 | 1.53 | 0.5 | 1.5286 | 0.5 | 1.5212 | 0.6 | 83.3 |
| Ecu | - | 1.2583 | +0.003 | 580 - 585 | 1.2606 | 1.2585 | 1.2591 | -0.7 | 1.2607 | -0.8 | 1.2695 | -0.9 | - |
| SDR† | - | 0.68655 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9997 | - | 996 - 997 | 1.0002 | 0.9996 | - | - | - | - | - | - | - |
| Brazil | (R$) | 0.9871 | +0.0001 | 870 - 872 | 0.9874 | 0.9870 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.3578 | [illegible] | [illegible] | 1.3580 | 1.3550 | 1.3578 | [illegible] | 1.3579 | 0.0 | 1.3607 | -0.2 | 84.0 |
| Mexico | (New Peso) | 7.5615 | +0.0365 | 590 - 640 | 7.5850 | 7.5450 | 7.5637 | -0.4 | 7.5669 | [illegible] | 7.5718 | -0.1 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | 96.6 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.2780 | [illegible] | 776 - 784 | 1.2785 | 1.2745 | [illegible] | -1.9 | 1.2835 | -1.7 | 1.3022 | -1.9 | 93.2 |
| Hong Kong | (HK$) | 7.7323 | -0.0004 | [illegible] | 7.7331 | [illegible] | [illegible] | -0.1 | [illegible] | -0.1 | 7.7618 | -0.4 | - |
| India | (Rs) | 34.1000 | -0.025 | 500 - 500 | 34.3400 | 34.0000 | 34.25 | -5.3 | 34.555 | -5.3 | 36.025 | [illegible] | - |
| Israel | (Shk) | 3.1305 | -0.0029 | [illegible] | 3.1357 | 3.1264 | - | - | - | - | - | - | - |
| Japan | (Y) | 107.405 | -0.055 | [illegible] | 107.770 | 107.290 | 106.96 | 5.0 | 106.08 | 5.0 | 102.32 | 4.7 | 136.4 |
| Malaysia | (M$) | 2.5314 | -0.0001 | 310 - 317 | 2.5350 | 2.5310 | 2.5323 | -0.4 | 2.5384 | -1.1 | 2.5619 | -1.2 | - |
| New Zealand | (NZ$) | 1.4633 | [illegible] | 626 - 641 | 1.4657 | 1.4625 | 1.4664 | -2.5 | 1.4722 | -2.4 | 1.4968 | -2.3 | - |
| Philippines | (Peso) | 26.1800 | +0.03 | 300 - 300 | 26.2300 | 26.1300 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 3.7505 | -0.0002 | 503 - 507 | 3.7507 | 3.7503 | 3.751 | -0.1 | 3.7517 | -0.1 | 3.755 | -0.1 | - |
| Singapore | (S$) | 1.4053 | +0.0005 | 048 - 058 | 1.4085 | 1.4044 | 1.4018 | 3.0 | 1.3958 | 2.7 | 1.3703 | 2.5 | - |
| South Africa | (R) | 4.0925 | -0.01 | 750 - 100 | 4.1100 | 4.0750 | 4.1212 | -8.4 | 4.1728 | -7.8 | 4.396 | -7.4 | - |
| South Korea | (Won) | 780.050 | - | 000 - 100 | 780.800 | 779.700 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 27.1565 | -0.0265 | 550 - 580 | 27.1780 | 27.1530 | 27.1765 | -0.9 | 27.2165 | -0.9 | - | - | - |
| Thailand | (Bt) | 25.2700 | +0.02 | 600 - 800 | 25.2900 | 25.2560 | 25.3687 | -4.7 | 25.5725 | -4.6 | 26.455 | -4.7 | - |

† SDR rate per $ for Apr 5. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Apr 5: Base average 1990=100. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

## WORLD INTEREST RATES

### MONEY RATES

| April 4 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.00 | 3.00 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.00 | 3.00 | - |
| France | 4 | [illegible] | [illegible] | [illegible] | [illegible] | 3.80 | - | 5.60 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 3.80 | - | 5.60 |
| Germany | [illegible] | 3¼ | 3¼ | 3¼ | [illegible] | 5.00 | 3.00 | 3.30 |
| week ago | [illegible] | 3¼ | [illegible] | [illegible] | [illegible] | 5.00 | 3.00 | 3.30 |
| Ireland | [illegible] | 5½ | 5½ | 5½ | [illegible] | - | - | 6.25 |
| week ago | [illegible] | 5½ | [illegible] | [illegible] | [illegible] | - | - | 6.25 |
| Italy | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 9.00 | 10.00 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 9.00 | 9.88 |
| Netherlands | 3 | 3 | 3 | [illegible] | [illegible] | - | 3.00 | 3.30 |
| week ago | [illegible] | 3 | [illegible] | [illegible] | [illegible] | - | 3.00 | 3.30 |
| Switzerland | 1½ | 1½ | [illegible] | [illegible] | [illegible] | 5.00 | 1.50 | - |
| week ago | 1½ | 1½ | [illegible] | [illegible] | [illegible] | 5.00 | 1.50 | - |
| US | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.00 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.00 | - |
| Japan | ½ | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| week ago | ½ | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| **$ LIBOR FT London** | | | | | | | | |
| Interbank Fixing | - | [illegible] | [illegible] | 5½ | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | 5½ | [illegible] | - | - | - |
| US Dollar CDs | - | 5.10 | 5.11 | 5.18 | 5.41 | - | - | - |
| week ago | - | 5.10 | 5.12 | 5.20 | 5.44 | - | - | - |
| ECU Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| SDR Linked Ds | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |
| week ago | - | [illegible] | [illegible] | [illegible] | [illegible] | - | - | - |

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

### EURO CURRENCY INTEREST RATES

| Apr 4 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Danish Krone | [illegible] | [illegible] | [illegible] | [illegible] - 4 | [illegible] - 4 | [illegible] |
| D-Mark | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dutch Guilder | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| French Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Portuguese Esc. | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Spanish Peseta | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sterling | 6 - [illegible] | 6 - [illegible] | 6 - [illegible] | [illegible] | [illegible] | [illegible] |
| Swiss Franc | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Can. Dollar | [illegible] - 5 | [illegible] | 5 - [illegible] | [illegible] - 5 | [illegible] | [illegible] |
| US Dollar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Italian Lira | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Yen | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Asian $Sing | [illegible] | [illegible] | [illegible] | [illegible] - 2 | [illegible] | [illegible] |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

### ■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 94.45 | 94.48 | -0.07 | 94.49 | 94.44 | 67,461 | 411,101 |
| Sep | 94.23 | 94.22 | +0.24 | 94.27 | 94.19 | 101,952 | 356,540 |
| Dec | 93.96 | 93.92 | +0.74 | 93.97 | 93.89 | 169,726 | 336,230 |

### ■ US TREASURY BILL FUTURES (IMM) $1m per 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 94.94 | 94.97 | +0.02 | 94.74 | 94.66 | 409 | 9,775 |
| Sep | 94.66 | 94.72 | +0.02 | 94.46 | 94.46 | 143 | 3,670 |
| Dec | 94.46 | 94.48 | - | 94.51 | 94.51 | 60 | 203 |

All Open interest figs. are for previous day

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Apr 8 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 18.80 | 16.59 | 4.869 | 2.088 | 5142 | 5.437 | 21.10 | 501.3 | 407.4 | 21.89 | [illegible] | 2.152 | 4.473 | 3.295 | 353.9 | 2.619 |
| Denmark | (DKr) | 53.19 | 10 | 8.826 | 2.590 | 1.111 | 2735 | 2.892 | 11.22 | 266.7 | 216.7 | 11.64 | 2.090 | 1.145 | 2.379 | 1.753 | 188.2 | 1.393 |
| France | (FFr) | 60.26 | 11.33 | 10 | 2.934 | 1.258 | 3099 | 3.276 | 12.71 | 302.1 | 245.5 | 13.19 | 2.367 | 1.297 | 2.695 | 1.986 | 213.2 | 1.578 |
| Germany | (DM) | 20.54 | 3.861 | 3.408 | 1 | 0.429 | 1056 | 1.117 | 4.333 | 103.0 | 83.69 | 4.496 | 0.807 | 0.442 | 0.919 | 0.677 | 72.68 | 0.538 |
| Ireland | (I£) | 47.90 | 9.004 | 7.948 | [illegible] | 1 | 2463 | 2.604 | 10.11 | 240.1 | 195.2 | [illegible] | 1.881 | 1.031 | 2.142 | 1.578 | 169.5 | 1.255 |
| Italy | (L) | 1.945 | 0.366 | 0.323 | 0.095 | 0.041 | 100. | 0.106 | 0.410 | 9.749 | 7.924 | 0.426 | 0.076 | [illegible] | 0.087 | 0.064 | 6.882 | 0.051 |
| Netherlands | (Fl) | 18.39 | 3.458 | 3.052 | 0.895 | 0.384 | 945.8 | 1 | 3.880 | 92.20 | 74.94 | 4.026 | 0.722 | 0.396 | 0.823 | 0.606 | 65.08 | 0.482 |
| Norway | (NKr) | 47.40 | 8.910 | 7.866 | [illegible] | 0.990 | 2437 | 2.577 | 10 | [illegible] | 193.1 | 10.38 | 1.862 | [illegible] | 2.120 | [illegible] | 167.7 | 1.242 |
| Portugal | (Es) | 19.95 | 3.750 | 3.310 | 0.971 | [illegible] | 1026 | 1.085 | 4.209 | 100. | 81.28 | 4.367 | 0.784 | 0.429 | 0.892 | 0.657 | 70.59 | 0.523 |
| Spain | (Pta) | 24.54 | 4.614 | 4.073 | 1.195 | 0.512 | 1262 | [illegible] | 5.178 | [illegible] | 100. | 5.372 | 0.964 | 0.528 | 1.098 | 0.809 | 86.85 | 0.643 |
| Sweden | (SKr) | 45.69 | 8.589 | 7.581 | 2.224 | 0.954 | 2349 | [illegible] | 9.638 | 229.0 | 186.1 | 10 | 1.794 | 0.983 | 2.043 | 1.505 | 161.7 | 1.197 |
| Switzerland | (SFr) | 25.46 | 4.786 | 4.225 | 1.239 | 0.532 | 1309 | [illegible] | 5.371 | 127.6 | 103.7 | 5.573 | 1 | 0.548 | [illegible] | 0.839 | 90.08 | 0.667 |
| UK | (£) | 46.46 | 8.734 | 7.710 | 2.262 | 0.970 | 2389 | 2.526 | 9.802 | 232.9 | 189.3 | 10.17 | 1.825 | 1 | 2.078 | 1.531 | 164.4 | 1.217 |
| Canada | (C$) | 22.36 | 4.203 | 3.710 | 1.089 | 0.467 | 1150 | 1.216 | 4.717 | 112.1 | 91.10 | 4.894 | 0.878 | 0.481 | 1 | 0.737 | 79.11 | 0.586 |
| US | ($) | 30.35 | 5.705 | 5.036 | 1.477 | 0.634 | 1560 | 1.650 | 6.402 | 152.1 | 123.6 | 6.643 | 1.192 | 0.653 | 1.357 | 1 | 107.4 | 0.795 |
| Japan | (Y) | 28.26 | 5.313 | 4.690 | 1.376 | 0.590 | 1453 | 1.536 | 5.962 | 141.7 | 115.1 | 6.186 | 1.110 | 0.608 | 1.264 | 0.931 | 100. | 0.740 |
| Ecu | | 38.18 | 7.177 | 6.335 | 1.859 | 0.797 | 1966 | 2.076 | 8.054 | 191.4 | 155.6 | 8.357 | 1.500 | 0.822 | 1.707 | 1.258 | [illegible] | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

### ■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Latest | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.6780 | 0.6791 | +0.0008 | 0.6813 | 0.6781 | 18,261 | 65,922 |
| Sep | 0.6841 | 0.6841 | +0.0029 | 0.6845 | 0.6841 | 25 | 2,132 |
| Dec | - | 0.6851 | - | - | - | 2 | 193 |

### ■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Latest | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.8421 | 0.8448 | +0.0022 | 0.8477 | 0.8408 | 9,181 | 28,002 |
| Sep | 0.8545 | 0.8535 | +0.0033 | 0.8550 | 0.8523 | 3 | 619 |
| Dec | - | 0.8579 | - | - | - | 2 | 504 |

### ■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

| | Open | Latest | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.9373 | 0.9396 | +0.0008 | 0.9419 | 0.9366 | 14,780 | 75,841 |
| Sep | 0.9520 | 0.9517 | +0.0015 | 0.9525 | 0.9517 | 1 | 1,786 |
| Dec | - | 0.9617 | - | - | - | 61 | 1,068 |

### ■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Latest | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 1.5270 | 1.5294 | -0.0002 | 1.5312 | 1.5266 | 19,409 | 46,541 |
| Sep | 1.5300 | 1.5280 | +0.0004 | 1.5300 | 1.5280 | 2 | 89 |
| Dec | - | 1.5250 | -0.0002 | - | 1.5250 | 3 | 89 |

### ■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | Calls Apr | Calls May | Calls Jun | Puts Apr | Puts May | Puts Jun |
|---|---|---|---|---|---|---|
| 1.500 | 2.67 | 2.88 | 3.27 | 0.01 | 0.10 | 0.57 |
| 1.510 | 1.82 | 2.20 | [illegible] | 0.02 | 0.26 | 0.86 |
| 1.520 | 0.39 | 1.46 | 2.09 | 0.10 | 0.57 | 1.23 |
| 1.530 | 0.29 | 0.92 | 1.55 | 0.32 | 1.01 | 1.70 |
| 1.540 | 0.01 | 0.52 | 1.12 | 1.02 | 1.60 | 2.27 |
| 1.550 | - | 0.25 | 0.78 | 1.95 | 2.36 | 2.87 |

Previous day's vol., Calls 3,161 Puts 4,089. Prev. day's open int., Calls 167,876 Puts 188,391

### ■ Pound in New York

| Apr 8 | Latest | Prev. close |
|---|---|---|
| £ spot | 1.5310 | 1.5305 |
| 1 mth | 1.5303 | 1.5298 |
| 3 mth | 1.5274 | 1.5285 |
| 1 yr | 1.5220 | 1.5210 |

**FT GUIDE to WORLD CURRENCIES**

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

## FT GOLD MINES INDEX

| | Apr 4 | % chg on day | Apr 3 | Year ago | Gross div yield % | P/E ratio | 52 week High | 52 week Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (30) | 2286.91 | -1.0 | [illegible] | 1962.66 | 1.41 | - | 2520.73 | 1722.82 |
| ■ Regional Indices | | | | | | | | |
| Africa (13) | 3012.16 | +0.5 | 2995.97 | 2637.16 | 2.72 | 34.81 | 3853.68 | 2272.74 |
| Australasia (5) | 2670.25 | -1.1 | 2700.18 | 2319.33 | 2.39 | 29.05 | 2927.34 | 2098.51 |
| North America (12) | 2041.43 | -1.7 | 2076.45 | 1657.90 | 0.68 | 65.93 | 2186.39 | 1468.94 |

Copyright, The Financial Times Limited 1996. "FT Gold Mines Index" is a trademark of The Financial Times Limited. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1996 High | 1996 Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - | F.P. | 28.5 | 96 | 95 | Advent VCT | 95 | | - | - | - | - |
| - | F.P. | 12.0 | 24½ | 20 | Aegis Wes | 24 | +½ | - | - | - | - |
| - | F.P. | 73.2 | 245 | 243 | Avocet Mining | 243 | | - | - | - | - |
| - | F.P. | 14.5 | 95 | 95 | British Smlr Cos | 95 | | - | - | - | - |
| - | F.P. | 21.1 | 235 | 230 | Cambridge Wtr NV | 235 | | †Inv15. | 3.1 | 8.5 | 4.7 |
| 56 | F.P. | 83.1 | 60 | 58 | Chelsea Village | 60 | | V- | - | - | - |
| - | F.P. | 26.5 | 95 | 95 | Close Bros VCT | 95 | | - | - | - | - |
| 270 | F.P. | 91.5 | 325 | 305 | Dicom | 307 | -3 | - | - | - | 70.9 |
| 100 | F.P. | 16.4 | 137 | 105 | Easynet | 108 | -2 | - | - | - | - |
| 165 | F.P. | 36.7 | 183 | 180 | †First Info | 181 | -2 | - | - | - | - |
| - | F.P. | 45.7 | 58 | 58 | Fleming Wrld Inc | 58 | -1 | 4.66 | - | 8.5 | - |
| - | F.P. | 60.6 | 194 | 183 | Fulmar | 184 | +2 | Lv4.3 | 2.7 | 2.8 | 16.9 |
| - | F.P. | 81.2 | 96 | 93½ | GT Inc Gwth Tst | 95 | - | | | | |
| - | F.P. | 20.4 | 98 | 90 | Gartmore VCT | 97 | | - | - | - | - |
| - | F.P. | 21.4 | 95 | 95 | Guinness Fl VCT | 95 | | - | - | - | - |
| 100 | F.P. | 27.2 | 97 | 96 | Hill Sml UK Emg Co | 96 | | - | - | - | - |
| - | F.P. | 0.83 | 80 | 80 | Hurlingham Props | 80 | | - | - | - | - |
| 75 | F.P. | 18.1 | 96 | 75½ | ILP Group | 84 | -2 | - | - | - | 12.9 |
| 100 | 50 | 28.0 | 65 | 48 | Life Offices Opport | 63½ | -½ | - | - | - | - |
| 145 | F.P. | 109.6 | 191 | 145 | [illegible] | 187 | | RN4.0 | 2.3 | 2.7 | 20.5 |
| 125 | F.P. | 15.1 | 130 | 113 | †Marine & Merc | 125 | -5 | - | - | - | - |
| - | F.P. | 38.0 | 702 | 675 | New Asia Fund | 683 | | - | - | - | - |
| 205 | F.P. | 2,039 | 244 | [illegible] | Orange | 234 | +6 | - | - | - | - |
| - | F.P. | 7.60 | 95 | 95 | Pennine AIM VCT | 95 | | - | - | - | - |
| 500 | F.P. | 177.0 | 515 | 98 | Perp Inc & Gwth | 515 | | - | - | - | - |
| 100 | F.P. | 16.5 | 106 | 103 | †Primary Hlth Props | 103 | | - | - | - | - |
| - | F.P. | 16.2 | 90 | 90 | Quester VCT | 90 | | - | - | - | - |
| 32 | F.P. | 3.06 | 34 | 32 | Raphael Zorn | 34 | | V1.25 | 1.3 | 4.6 | 21.3 |
| - | F.P. | 27.8 | 102 | 102 | Scottish Asian C | 102 | | - | - | - | - |
| 3 | F.P. | 4.95 | 4 | 3½ | Silver Shield | 3¾ | -¼ | V- | - | - | 15.8 |
| 120 | F.P. | 37.2 | 141 | 123 | Stadium Group | 136 | -2 | Lu3.6 | 3.1 | 3.5 | 11.3 |
| 115 | F.P. | 16.5 | 136 | 121 | †Systs Integ Rsch | 122 | -6 | - | - | - | - |
| - | F.P. | 16.2 | 515 | 509 | Taverners Tst Ut | 513 | | - | - | - | - |
| 135 | F.P. | 46.5 | 184 | 153 | Triad Group | 184 | +1 | RN2.35 | 3.0 | 1.6 | 24.4 |

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

## US

### ■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 109-09 | 108-30 | -0-15 | 109-09 | 108-24 | 246,549 | 342,283 |
| Sep | 108-26 | 108-15 | -0-14 | 108-26 | 108-09 | 2,288 | 21,706 |
| Dec | 108-08 | 108-01 | -1-12 | 108-06 | 107-28 | 520 | 3,893 |

## US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| | | One month | 5.14 | Two year | 6.13 |
| Prime rate | 8¼ | Two month | 5.13 | Three year | 6.27 |
| Broker loan rate | 7 | Three month | 5.15 | Five year | 6.48 |
| Fed.funds | 5⅜ | Six month | 5.37 | 10-year | 6.65 |
| Fed.funds at intervention | - | One year | 5.67 | 30-year | 6.81 |

## Spain

### ■ NOTIONAL SPANISH BOND FUTURES (MEFF)

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 96.10 | 95.89 | -0.96 | 96.29 | 95.83 | 18,770 | 46,116 |

## UK INTEREST RATES

### LONDON MONEY RATES

| Apr 4 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | [illegible] - 5 | 6 - [illegible] | 6 - [illegible] | [illegible] - 6 | [illegible] - 6 | [illegible] |
| Sterling CDs | - | - | [illegible] | 6 - [illegible] | [illegible] - 6 | [illegible] |
| Treasury Bills | - | - | [illegible] | [illegible] | - | - |
| Bank Bills | - | - | [illegible] | [illegible] | [illegible] | - |
| Local authority deps. | [illegible] | [illegible] | 6 - [illegible] | [illegible] | [illegible] - 6 | [illegible] |
| Discount Market deps | 6 - 5½ | [illegible] | - | - | - | - |

UK clearing bank base lending rate 6 per cent from March 8, 1996

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 2½ | 5½ | 5 | 5 | 4¾ |

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Apr 4, 5.8151pc. ECGD fixed rate Stg. Export Finance. Make up day Mar 29, 1996. Agreed rate for period Apr 26, 1996 to May 25, 1996, Schemes II & III 7.36pc. Reference rate for period Mar 1, 1996 to Mar 29, 1996, Schemes IV & V 6.135pc. Finance House Base Rate 6.5pc from April 1, 1996

### BANK OF ENGLAND TREASURY BILL TENDER

| | Apr 4 | Mar 29 | | Apr 4 | Mar 29 |
|---|---|---|---|---|---|
| Bills on offer | £800m | £800m | Top accepted rate | 5.8159% | 5.8159% |
| Total of applications | £3383m | £3542m | Ave. rate of discount | 5.8151% | 5.7899% |
| Total allocated | £800m | £800m | Average yield | 5.9006% | 5.8849% |
| Min. accepted bid | £98.550 | £98.550 | Offer at next tender | £800m | £800m |
| Allotment at min. level | 54% | 25% | Min. accept. bid 182 days | - | - |

## BANK RETURN

| BANKING DEPARTMENT | Wednesday April 3, 1996 | Increase or decrease for week |
|---|---|---|
| | £ | £ |
| **Liabilities** | | |
| Capital | 14,553,000 | |
| Public deposits | 1,286,673,776 | +444,881,069 |
| Bankers deposits | 1,728,584,399 | [illegible] |
| Reserve and other accounts | 3,167,633,736 | -116,613,315 |
| | 6,197,444,911 | +187,829,282 |
| **Assets** | | |
| Government securities | 1,153,475,775 | -509,760,000 |
| Advance and other accounts | 3,118,026,506 | +1,592,284,605 |
| Premise, equipment and other secs | 1,920,012,384 | -897,052,761 |
| Notes | 5,762,458 | +2,173,406 |
| Coin | 167,806 | +4,032 |
| | 6,197,444,911 | +187,829,282 |
| **ISSUE DEPARTMENT** | | |
| **Liabilities** | | |
| Notes in circulation | 20,474,237,542 | +717,826,594 |
| Notes in Banking Department | 5,762,458 | +2,173,406 |
| | 20,480,000,000 | +720,000,000 |
| **Assets** | | |
| Other Government securities | 16,679,492,170 | +1,168,904,892 |
| Other Securities | 3,800,507,830 | -448,904,892 |
| | 20,480,000,000 | +720,000,000 |

## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 6.00 | Duncan Lawrie | 6.00 | Royal Bk of Scotland | 6.00 |
| Allied Trust Bank | 6.00 | Exeter Bank Limited | 7.25 | ●Singer & Friedlander | 6.00 |
| AIB Bank | 6.00 | Financial & Gen Bank | 7.00 | ●Smith & Williamson Secs | 6.00 |
| ●Henry Ansbacher | 6.00 | ●Robert Fleming & Co | 6.00 | TSB | 6.00 |
| Bank of Baroda | 6.00 | Girobank | 6.00 | United Bank of Kuwait | 6.00 |
| Banco Bilbao Vizcaya | 6.00 | ●Guinness Mahon | 6.00 | Unity Trust Bank Plc | 6.00 |
| Bank of Cyprus | 6.00 | Habib Bank AG Zurich | 6.00 | Western Trust | 6.00 |
| Bank of Ireland | 6.00 | ●Hambros Bank | 6.00 | Whiteaway Laidlaw | 6.00 |
| Bank of India | 6.00 | Heritable & Gen Inv Bk | 6.00 | Yorkshire Bank | 6.00 |
| Bank of Scotland | 6.00 | ●Hill Samuel | 6.00 | | |
| Barclays Bank | 6.00 | C. Hoare & Co | 6.00 | | |
| Brit Bk of Mid East | 6.00 | Hongkong & Shanghai | 6.00 | | |
| ●Brown Shipley & Co Ltd | 6.00 | Julian Hodge Bank | 6.00 | | |
| Citibank NA | 6.00 | ●Leopold Joseph & Sons | 6.00 | | |
| Clydesdale Bank | 6.00 | Lloyds Bank | 6.00 | | |
| The Co-operative Bank | 6.00 | Meghraj Bank Ltd | 6.00 | | |
| Coutts & Co | 6.00 | Midland Bank | 6.00 | | |
| Credit Lyonnais | 6.00 | * Mount Credit Corp | 6.25 | | |
| Cyprus Popular Bank | 6.00 | NatWestminster | 6.00 | | |
| | | ●Rea Brothers | 6.00 | | |

● Members of London Investment Banking Association
* In administration

## UK GILTS PRICES

| | Notes | Price £ | Wk % +/- | Amt £m | Interest due | Last xd | City line |
|---|---|---|---|---|---|---|---|
| **Shorts" (Lives up to Five Years)** | | | | | | | |
| Treas 15¼pc 1996‡‡ | | 100[illegible] | -.3 | 1,150 | Mr3 My3 | 27.9 | 1309 |
| Exch 13¼pc 1996‡‡ | | 100¼ | -.2 | 800 | Mr15 My15 | 9.10 | 1268 |
| Treas 2pc 1996 | | 216[illegible] | - | 1,200 | [illegible] | 7.3 | 1313 |
| Conversion 10pc 1996 | | 102¼ | -.1 | 3,409 | My15 Nv15 | 8.10 | 1240 |
| Treas 13¼pc 1997‡‡ | | 105[illegible] | -.1 | 1,290 | Jy22 Ja22 | 18.12 | 1302 |
| Exch 10½pc 1997 | | 103[illegible] | -.1 | 3,700 | Au21 Fe21 | 12.2 | 1253 |
| Treas 8½pc 2005‡‡ | | 108[illegible] | 1.3 | 8,900 | Ja7 De7 | 31.10 | 4946 |
| Treas 7½pc 2006‡‡ | | 98[illegible] | 1.3 | 6,000 | Ja7 De7 | 31.10 | 1148 |
| Treas 7¾pc 2006‡‡ | | 97[illegible] | 1.3 | 3,900 | Mr8 Se8 | 28.2 | 2300 |
| Treas 8pc 2002-6‡‡ | | 99¼ | 1.2 | 2,000 | Ap5 Oc5 | 27.3 | 1334 |
| Treas 11¾pc 2003-7 | | 119[illegible] | 0.7 | 3,150 | Jy22 Ja22 | 18.12 | 1293 |
| Treas 8½pc 2007‡‡ | | 102[illegible] | 1.3 | 7,397 | Ja16 Jy16 | 11.12 | 1339 |
| Treas 13½pc 2004-8 | | 132[illegible] | 0.8 | 1,250 | Se26 Mr26 | 15.3 | 1301 |
| **Index-Linked** | (b) | | | | | | |
| 4⅝pc '98‡‡ | (135.6) | 111[illegible] | 0.1 | 800 | Ap27 Oc27 | 20.9 | 1753 |
| 2½pc '01 | (78.3) | 177[illegible] | 0.1 | 1,700 | Mr24 Se24 | 14.3 | 1316 |
| 2½pc '03 | (78.8) | 173[illegible] | 0.2 | 1,700 | My20 Nv20 | 16.10 | 1317 |
| 4⅝pc '04‡‡ | (135.6) | 114[illegible] | 0.3 | 1,000 | Ap21 Oc21 | 14.9 | 1255 |
| 2pc '06 | (69.5) | 181[illegible] | 0.4 | 1,850 | Ja19 Jy19 | 13.12 | 1314 |
| 2½pc '09 | (78.8) | 163[illegible] | 0.6 | 2,050 | My20 Nv20 | 16.10 | 1318 |
| 2½pc '11 | (74.6) | 166[illegible] | 0.7 | 2,350 | Fe23 Au23 | 14.2 | 1319 |

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for July 1995: 149.1 and for February 1996: 150.9.

**Other Fixed Interest**

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

## STOCK INDICES

| | Apr 4 | Apr 3 | Apr 2 | Apr 1 | Mar 29 | 1996 High | 1996 Low | Since comp. High | Since comp. Low |
|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Mid 250 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Mid 250 ex IT's | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE-A 350 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE SmallCap | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE SmallCap ex IT's | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE-A All-Share | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE-A Fledgling | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Eurotrack 100 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT-SE Eurotrack 200 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Ordinary | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Govt. Securities | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Fixed Interest | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FT Gold Mines | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Apr 4 / Sch)

BELGIUM/LUXEMBOURG (Apr 4 / Frs.)

CZECH REP (Apr 5 / Koruna)

DENMARK (Apr 3 / Kr)

FINLAND (Apr 3 / Mks)

FRANCE (Apr 4 / Frs.)

GERMANY (Apr 4 / Dm.)

GREECE (Apr 8 / Drachma)

ITALY (Apr 5 / Lira)

NETHERLANDS (Apr 4 / Fls.)

NORWAY (Apr 3 / Kroner)

POLAND (Apr 5 / Zloty)

PORTUGAL (Apr 4 / Escudo)

SPAIN (Apr 8 / Pts.)

SWEDEN (Apr 4 / Kronor)

SWITZERLAND (Apr 4 / Frs.)

TURKEY (Apr 8 / Tk Lira)



## PACIFIC

JAPAN (Apr 8 / Yen)

HONG KONG (Apr 3 / H.K.$)

INDONESIA (Apr 8 / Rupiah)

MALAYSIA (Apr 8 / MYR)

NEW ZEALAND (Apr 4 / NZ $)

SINGAPORE (Apr 8 / S$)

AUSTRALIA (Apr 4 / Aus$)

SOUTH KOREA (Apr 8 / Won)

TAIWAN (Apr 8 / TW $)

THAILAND (Apr 8 / Baht)

## AFRICA

SOUTH AFRICA (Apr 4 / Rand)

## NORTH AMERICA

CANADA

TORONTO (Apr 8 / Can $) 4 pm close

MONTREAL (Apr 8 / Can $) 4 pm close

## INDICES

| | | | | | |
|---|---|---|---|---|---|
| Indonesia | | | | | |
| Jakarta Comp.(10/8/82) | 597.64 | (c) | 605.08 | 605.98 4/4 | 512.48 2/1 |
| Ireland | | | | | |
| ISEQ Overall(4/1/88) | (c) | (c) | 2422.02 | 2425.88 3/4 | 2234.81 2/1 |
| Italy | | | | | |
| Banca Comm Ital(1972) | (c) | 591.70 | 590.40 | 638.25 9/2 | 572.21 27/3 |
| MIB General(2/1/95) | (c) | 1003.0 | 1001.0 | 1082.00 9/2 | 970.00 27/3 |
| Japan | | | | | |
| Nikkei 225(16/5/49) | 21424.24 | 21695.84 | 21471.16 | 21695.84 5/4 | 19734.70 13/3 |
| Nikkei 300(1/10/82) | 305.67 | 308.43 | 305.65 | 308.43 5/4 | 284.48 11/3 |

| | | | | | |
|---|---|---|---|---|---|
| Turkey | | | | | |
| Istanbul Comp.(Jan 1986) | 72086.8 | (c) | 69834.4 | 72088.88 8/4 | 38779.38 2/1 |
| WORLD | | | | | |
| MS Capital Intl$(1/1/70) | (u) | 768.4* | 767.7 | 768.40 5/4 | 725.80 15/1 |
| CROSS-BORDER | | | | | |
| Eurotrack 100(26/10/90) | (c) | (c) | 1629.39 | 1638.28 2/4 | 1504.40 11/1 |
| Euro Top-100(26/6/90) | 1417.39 | 1419.69 | 1419.84 | 1419.84 4/4 | 1333.01 11/1 |
| HSBC JC Orgnl(31/12/88) | (u) | (u) | (u) | 382.52 19/2 | 344.99 3/1 |
| ING Bmgs Emrg(7/1/92) | (u) | 157.54 | 156.78 | 162.72 5/2 | 147.56 2/1 |

## US INDICES

### INDEX FUTURES

| ■ CAC-40 (200 x Index) (Apr 4) | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Apr | 2065.0 | 2079.0 | +13.0 | 2082.0 | 2063.0 | 10,365 | 33,672 |
| May | 2056.5 | 2069.0 | +12.5 | 2069.0 | 2056.5 | 657 | 3,299 |
| ■ DAX | | | | | | | |
| Mar | 2502.0 | 2502.5 | +8.0 | 2507.5 | 2495.0 | 9,062 | - |
| Jun | 2516.0 | 2522.5 | +8.0 | 2527.0 | 2516.0 | 63 | - |

| ■ OMX | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Apr | 1450.00 | 1453.00 | -7.00 | 1463.00 | 1447.00 | 1,322 | 17,348 |
| May | 1446.75 | 1445.75 | -8.00 | 1445.75 | 1445.75 | 30 | 1,257 |
| ■ SOFFEX | | | | | | | |
| Apr | 3606.0 | 3607.0 | +1.5 | 3608.0 | 3595.0 | 2,507 | 20,875 |
| May | - | 3592.0 | +1.0 | - | - | - | 734 |

** Sat Apr 6: Taiwan Weighted Price 5561.13; Korea Comp Ex 876.89. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Apr 4 - 2498.75 +9.23

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's. ¶ Subject to official recalculation.

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on 52-week ... 1995. ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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### ■ TOKYO - MOST ACTIVE STOCKS: Monday, April 8, 1996

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Taiheiyo Bank | 13.7m | 6 | - |
| Shokusan Jutaku | 8.6m | 475 | +15 |
| Nagasakiya | 6.8m | 588 | +25 |
| Shinko Electric | 5.0m | 1050 | -10 |
| Ga-Jo-En Kanko | 4.9m | 232 | +29 |

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Mitsui Eng & Bldg | 4.5m | 329 | +1 |
| Takaoka Elec Mfg | 4.3m | 700 | +10 |
| Kanto Spl Steel | 4.0m | 780 | -14 |
| Asahi Optical | 3.8m | 575 | -16 |
| Keisei Ele Ry | 3.8m | 1190 | -30 |

صكذا من الاصل

# WORLD STOCK MARKETS

AMERICA

## US equities react gloomily to jobs data

### Wall Street

US shares tumbled in early trading as the bond market dropped for a second consecutive session following surprisingly strong figures on March employment growth released on Friday, *writes Lisa Bransten in New York.*

The Dow fell from the opening minutes of trading following Friday's drop on the bond market. The equity market was closed on Friday.

Six minutes into the session the Dow Jones Industrial Average was off more than 50 points, triggering the "uptick rule" that restricts program selling. Options on the Standard & Poor's 500 were more than 12 points lower before the cash market opened, meaning shares in that index did not trade for the first five minutes of dealing.

At 1 pm the Dow was off 134.76 at 5,548.12, the S&P 500 had lost 17.33 at 638.53 and the American Stock Exchange composite slid 9.26 to 567.84. The Nasdaq composite shed 22.55 to 1,095.66. Volume on the New York SE came to 237m shares.

The benchmark 30-year Treasury slipped nearly 2 points in a half-day session on Friday. Yesterday the long bond gave up 1⅛ of a point by early afternoon, bringing the yield to 6.917 per cent.

Consumer goods companies, which are thought of as safe havens in times of slowing economic growth, were among the hardest hit sectors. The Morgan Stanley index of consumer companies shed 2.5 per cent, while the counterpart index of cyclical shares was off 1.7 per cent.

Falling consumer shares in the Dow included Procter & Gamble, $2⅞ lower at $84¾, and McDonald's, off $1⅛ at $47⅝. Philip Morris was $2⅞ weaker at $89⅞ and Sears Roebuck shed $1⅞ to $46⅝.

Shares in interest rate-sensitive financial groups were also hit badly. Chase Manhattan Bank fell $3½ to $69⅞, Citicorp lost $2⅝ at $78⅝ and Wells Fargo shed $9¼ to $250.

The only company to post a gain on the Dow was Aluminum Company of America, which reported stronger than expected first-quarter earnings on Thursday. Shares in the company added $1¼ at $63¼ after Alcoa put its earnings at $1.01 per share, weaker than the $1.08 it earned in the first quarter of last year but above expectations of 93 cents.

### Canada

The equity market in Toronto was paying close attention to the situation on Wall Street. The TSE 300 composite index was down 65.40 at 4,951.00 by midday, although dealers pointed to the fact that there was very little volume.

## Latin America falters

The markets in the region reacted to the Wall Street fall with steep early losses.

MEXICO CITY extended its opening losses in the IPC index to stand at midday down 64.53 or 2 per cent at 3,021.91. Volume was a weak 12.9m shares, with 33 issues falling and only one, Grupo Mexico, gaining.

The biggest declines were those issues with ADRs traded widely in New York, such as Televisa and Telmex L shares.

SAO PAULO was also sharply lower in the first hour of trading and by midsession the Bovespa index had weakened 1,387.73 or 2.8 per cent to 48,388.

There was a similar story in BUENOS AIRES, with the Merval index off 5.84 at 504.80.

SANTIAGO was more robust as the market took in last week's increase in interest rates. The blue-chip IPSA index was 0.78 softer at 91.97.

ASIA PACIFIC

## Nikkei off 1.3% as investors play waiting game

### Tokyo

Fears of higher US interest rates triggered profit-taking and the Nikkei average closed 1.3 per cent down, *writes Emiko Terazono in Tokyo.*

The 225-share index lost 271.60 at 21,424.24 after touching 21,398.11 and 21,635.65. A decline in futures prices prompted arbitrage selling, while profit-taking, following the Nikkei's rise to a four-year high on Friday, also depressed share prices. Friday's rise in US bond yields also alarmed investors since US pension funds have been a driving force behind the Tokyo stock market's climb this year and an interest rate increase could squeeze the fund flow.

Volume totalled 343m shares, against 489m. Most investors remained on the sidelines due to the uncertainty over the state of the US economy and waited for post-Easter holiday trading in the US stock and bond markets. Market participants were also waiting for figures revealing demand in the US semiconductor market.

The Topix index of all first section stocks shed 13.61 to 1,645.12 and the Nikkei 300 fell 2.76 to 305.67. Losers led gainers by 826 to 251, with 154 issues unchanged.

Taiheiyo Bank, the regional bank which will be bailed out by Sakura Bank, Fuji Bank, Tokai Bank and Sanwa Bank, was the day's most active issue. The stock finished at Y6, down from the Y290 at which it last traded on March 29.

Other banks were lower on technical selling, with Industrial Bank of Japan losing Y10 at Y2,890 and Dai-Ichi Kangyo Bank Y30 at Y2,060. Brokers also weakened, Nomura Securities falling Y40 to Y2,310 and Daiwa Securities Y40 to Y1,600.

Fisheries were picked up as laggards. Nippon Suisan rose Y5 to Y465 but Maruha closed unchanged at Y374.

High-technology stocks were lower in spite of the yen's weakness. Hitachi dropped Y30 to Y1,040 and Toshiba closed Y8 cheaper at Y811. Sony dipped Y60 to Y6,380 and Matsushita Electric Industrial lost Y20 to Y1,730.

Speculative shares were actively traded. Shokusan Jutaku, a housing company, rose Y15 to Y475 and Nagasakiya, a retailing group, gained Y25 at Y568.

In Osaka, the OSE average slipped 99.54 to 22,795.48 in volume of 47m shares.

### Roundup

Fears of a sell-off in US stocks, when Wall Street had its opportunity to respond to Friday's strong employment data later yesterday, pressured many regional markets.

KUALA LUMPUR fell 1.6 per cent as confirmation of a large trade deficit in January compounded the downbeat mood.

After weeks of speculation, Anwar Ibrahim, the deputy prime minister and finance minister, said Malaysia recorded a large trade deficit in January but did not immediately provide details.

That proved enough to leave the composite index down 18.46 at 1,134.63. The second board index retreated 19.40 or 4 per cent to 468.65.

Asas Dunia was the most actively traded counter, up 40 cents to M$10.60 in volume of more than 9.5m shares.

SINGAPORE declined 1.3 per cent as property stocks led the losers after their recent gains. The Straits Times Industrial index shed 31.31 to 2,365.17 in thin volume of 71.5m shares. The SES property index slid 22.75 or 3 per cent to 741.82.

The property-based Wing Tai, which set a new high for the year of S$3.92 last week, was the most active stock but receded 12 cents to S$3.78.

SEOUL was unable to make progress as government steps to support prices helped to calm worries caused by a North Korean campaign to destroy the armistice agreement that ended the 1950-53 Korean War.

The composite index ended just 0.17 higher at 877.03, as investors discounted North Korea's weekend incursion into a sensitive border area as a diplomatic gambit aimed at pressing Washington to agree to direct military talks with Pyongyang.

Some primary blue chips rose on institutional buying. Kepco, the electricity monopoly, put on Won200 at Won30,700 and Samsung Electronics Won1,600 at Won86,100.

Brokers added that switching was seen to companies with large property holdings. Sung Chang Enterprise rose Won2,500 to Won68,000 and Taeyung went Won3,000 limit up to Won53,000.

TAIPEI finished higher, in spite of profit-taking pressure, as the heavily weighted financials sector continued to soar on news that the index may gain a Morgan Stanley listing.

The weighted index climbed 16.67 to a nine-month peak of 5,599.80 in heavy turnover of T$82.46bn, the largest for a single session since December 31, 1994.

The market, which had risen by more than 400 points on Friday and Saturday, opened lower as non-financial sectors encountered profit-taking. But analysts said extreme bullishness in financials subsequently supported the market.

The banking sector rose 3.1 per cent, with the state-run Big Three banks – First Commercial, Hwa Nan and Chang Hwa – all leaping by the daily 7 per cent limit to T$133, T$115.50 and T$130 respectively.

JAKARTA ended lower in spite of active late local buying of second-liners. The Jakarta composite index dipped 7.44 or 1.2 per cent to 597.64.

Textile shares were traded actively in spite of reports that Indonesia's textile exports were expected to fall this year.

EUROPE

## Madrid dips 1%, Istanbul rises

*The fall in the US was followed* by MADRID, one of the few markets open yesterday in the region. The general index lost 3.58 or 1 per cent to 341.42. The Ibex-35 receded 44.14 or 1.2 per cent to 3,850.64.

Brokers said electrical utilities declined on profit-taking, with Endesa slipping Pta50 to Pta7,170, while Iberdrola shed Pta20 to Pta1,125 and Union Fenosa eased Pta5 to Pta674.

Other moves included Telefónica, off Pta35 or 1.7 per cent at Pta1,965, and Repsol, down Pta65 to Pta4,590. Among banks, Banco Santander dipped Pta80 to Pta5,920, Popular Pta390 or 1.8 per cent to Pta21,310 and Argentaria Pta30 to Pta5,190.

The region's emerging markets, particularly sensitive to any change in US interest rates, went their own way.

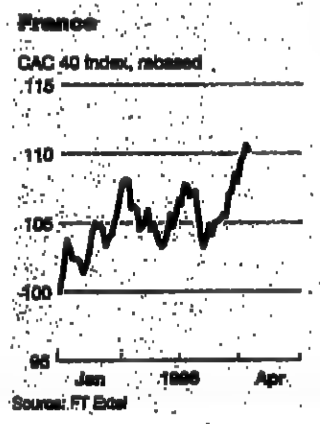
ISTANBUL ended at a new record, the composite index soaring 1,146.63 or 1.6 per cent to 72,086.84.

ATHENS was weak, with investors selling constructions, and particularly casino-linked stocks, after the government's snap decision to scrap long awaited plans to award a casino licence. The general index fell 5.36 to 962.41.

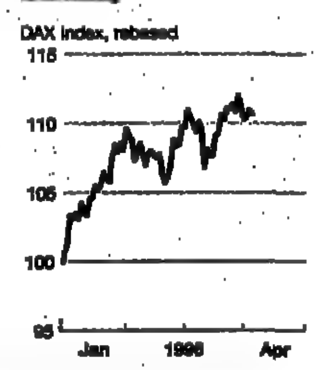
Among the consortium that was due to receive the casino licence, Attikat dropped Dr211 to Dr2,430, Technodomi lost Dr231 to Dr2,667 and Proodeftiki fell Dr185 to Dr2,243.

● Graphs below show first-quarter performances in major European markets.

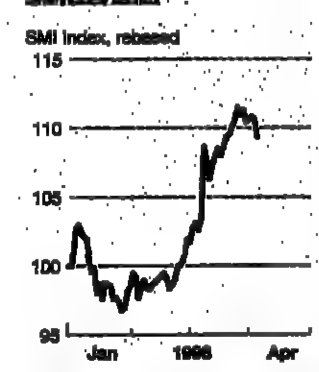
France




Germany




Switzerland




Source: FT Extel

### FT/S&P ACTUARIES WORLD INDICES QUARTERLY VALUATION

The market capitalisation of the national and regional markets of the FT/S&P Actuaries World Indices as at MARCH 29, 1996 are expressed below in millions of US dollars and as a percentage of the World Index. Similar figures are provided for the preceding quarter. The percentage change for each US dollar index value since the end of the calendar year is also provided.

| NATIONAL AND REGIONAL MARKETS (number of lines of stock) | Market cap. as at 29/03/96 (US$m) | % of World Index | Market cap. as at 29/12/95 (US$m) | % of World Index | % chge in $ index since 29/12/95 |
|---|---|---|---|---|---|
| Australia (81) | 178840.1 | 1.46 | 168860.3 | 1.43 | 4.96 |
| Austria (24) | 18518.5 | 0.15 | 17458.9 | 0.15 | 4.61 |
| Belgium (33) | 78713.2 | 0.64 | 80295.6 | 0.68 | -2.03 |
| Brazil (28) | 46962.8 | 0.38 | 42106.4 | 0.36 | 11.55 |
| Canada (101) | 180755.9 | 1.48 | 170572.0 | 1.45 | 5.39 |
| Denmark (33) | 40459.7 | 0.33 | 39316.7 | 0.33 | 2.70 |
| Finland (24) | 28800.4 | 0.24 | 29591.8 | 0.25 | -3.30 |
| France (98) | 403006.4 | 3.29 | 371321.1 | 3.15 | 8.46 |
| Germany (60) | 427981.8 | 3.50 | 401945.4 | 3.41 | 6.72 |
| Hong Kong (59) | 251552.5 | 2.06 | 212834.3 | 1.80 | 11.47 |
| Ireland (16) | 19911.5 | 0.16 | 19085.8 | 0.16 | 3.87 |
| Italy (59) | 136844.5 | 1.12 | 139736.3 | 1.18 | -2.08 |
| Japan (482) | 2842179.8 | 23.23 | 2846565.2 | 24.12 | -0.21 |
| Malaysia (107) | 132871.8 | 1.09 | 116941.0 | 0.99 | 14.06 |
| Mexico (18) | 44799.3 | 0.37 | 38690.4 | 0.33 | 15.79 |
| Netherland (19) | 243231.1 | 1.99 | 231631.7 | 1.96 | 5.30 |
| New Zealand (15) | 22720.7 | 0.19 | 22391.2 | 0.19 | 4.75 |
| Norway (33) | 25199.6 | 0.21 | 24555.8 | 0.21 | 2.26 |
| Singapore (44) | 69457.7 | 0.57 | 63981.4 | 0.54 | 8.25 |
| South Africa (46) | 140786.3 | 1.15 | 140118.0 | 1.19 | 0.29 |
| Spain (37) | 117378.8 | 0.96 | 115724.0 | 0.98 | 4.01 |
| Sweden (46) | 140169.9 | 1.15 | 129348.1 | 1.10 | 10.11 |
| Switzerland (38) | 346946.2 | 2.84 | 328857.8 | 2.79 | 5.05 |
| Thailand (40) | 24120.1 | 0.20 | 22627.7 | 0.19 | 6.29 |
| United Kingdom (205) | 1086460.3 | 8.88 | 1091274.3 | 9.25 | -0.70 |
| USA (631) | 5184974.3 | 42.38 | 4935800.2 | 41.83 | 4.88 |
| Americas (778) | 5457512.3 | 44.61 | 5167169.0 | 43.96 | 5.04 |
| Europe (728) | 3113621.5 | 25.45 | 3020153.0 | 25.59 | 3.11 |
| Nordic (136) | 234629.6 | 1.92 | 222812.2 | 1.89 | 6.14 |
| Pacific Basin (834) | 3521753.1 | 28.79 | 3453821.1 | 29.27 | 1.50 |
| Euro-Pacific (1560) | 6635374.7 | 54.24 | 6473774.1 | 54.86 | 2.28 |
| North America (732) | 5365730.2 | 43.86 | 5106372.3 | 43.27 | 4.91 |
| Europe Ex. UK (521) | 2027161.3 | 16.57 | 1928878.7 | 16.34 | 5.26 |
| Pacific Ex. Japan (352) | 679573.3 | 5.55 | 607035.9 | 5.14 | 9.99 |
| World Ex. US (1752) | 7048699.0 | 57.62 | 6865258.9 | 58.17 | 2.42 |
| World Ex. UK (2178) | 11147212.9 | 91.12 | 10709784.8 | 90.75 | 3.56 |
| World Ex. Japan (1901) | 9391493.5 | 76.77 | 8954473.9 | 75.88 | 4.62 |
| The World Index (2383) | 12233673.3 | 100.00 | 11801039.1 | 100.00 | 3.46 |



### FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY APRIL 5 1996 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | THURSDAY APRIL 4 1996 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (81) | 199.19 | 0.2 | 193.16 | 135.80 | 153.59 | 160.11 | 0.0 | 4.11 | 199.78 | 192.85 | 134.45 | 153.00 | 159.11 | 202.74 | 182.68 | 169.94 |
| Austria (24) | 183.45 | -0.1 | 177.90 | 124.61 | 141.40 | 141.22 | 0.0 | 1.54 | 183.71 | 178.32 | 124.25 | 141.40 | 141.22 | 199.06 | 168.11 | 185.32 |
| Belgium (34) | 209.93 | -0.1 | 203.59 | 142.60 | 161.81 | 157.73 | 0.0 | 4.13 | 210.22 | 204.05 | 142.18 | 161.61 | 157.73 | 215.81 | 184.35 | 184.35 |
| Brazil (28) | 154.32 | 0.0 | 149.65 | 104.63 | 118.95 | 260.37 | 0.0 | 1.57 | 154.32 | 149.79 | 104.35 | 118.75 | 260.37 | 170.25 | 100.07 | 116.71 |
| Canada (100) | 158.89 | 0.1 | 154.07 | 107.92 | 122.46 | 156.09 | 0.0 | 2.40 | 158.67 | 154.01 | 107.52 | 122.18 | 156.09 | 169.32 | 133.09 | 134.07 |
| Denmark (30) | 298.13 | -0.1 | 289.11 | 202.51 | 229.79 | 232.10 | 0.0 | 1.92 | 298.57 | 289.81 | 201.94 | 229.81 | 232.10 | 305.17 | 255.78 | 262.50 |
| Finland (24) | 174.60 | -0.1 | 169.32 | 118.60 | 134.58 | 159.97 | 0.0 | 2.90 | 174.77 | 169.64 | 118.21 | 134.52 | 159.97 | 278.11 | 171.73 | 180.85 |
| France (96) | 196.33 | -0.1 | 190.39 | 133.36 | 151.33 | 155.58 | 0.0 | 3.01 | 196.65 | 190.88 | 132.99 | 151.34 | 155.58 | 196.89 | 167.70 | 161.66 |
| Germany (60) | 173.09 | -0.1 | 167.86 | 117.57 | 133.42 | 133.42 | 0.0 | 1.95 | 173.34 | 168.25 | 117.24 | 133.42 | 133.42 | 174.38 | 146.96 | 149.78 |
| Hong Kong (59) | 438.54 | 0.0 | 425.27 | 297.88 | 338.00 | 435.37 | -0.0 | 3.24 | 438.62 | 425.66 | 296.60 | 337.52 | 435.37 | 451.19 | 323.87 | 342.82 |
| Ireland (16) | 267.57 | 0.1 | 259.48 | 181.75 | 206.24 | 239.14 | 0.0 | 3.40 | 267.39 | 259.51 | 180.83 | 205.78 | 239.14 | 267.57 | 216.62 | 216.85 |
| Italy (59) | 73.19 | -1.1 | 70.98 | 49.72 | 56.42 | 85.41 | -1.0 | 2.14 | 74.03 | 71.86 | 50.07 | 56.98 | 86.25 | 82.71 | 67.21 | 67.60 |
| Japan (481) | 155.05 | 0.5 | 150.36 | 105.32 | 119.51 | 105.32 | 1.0 | 0.72 | 154.24 | 149.72 | 104.32 | 118.72 | 104.32 | 184.82 | 137.75 | 148.62 |
| Malaysia (107) | 555.93 | -0.2 | 539.12 | 377.63 | 428.50 | 542.01 | -0.1 | 1.81 | 556.98 | 540.61 | 376.70 | 428.66 | 542.60 | 561.96 | 425.77 | 503.30 |
| Mexico (18) | 1214.85 | 0.1 | 1178.11 | 825.21 | 936.39 | [illegible] | 0.0 | 1.39 | 1214.05 | 1178.41 | 821.13 | 934.44 | 9995.15 | 1237.14 | 791.08 | 917.11 |
| Netherland (19) | 290.22 | -0.1 | 281.44 | 197.14 | 223.70 | 218.36 | 0.0 | 3.19 | 290.52 | 281.98 | 196.50 | 223.61 | 218.36 | 290.52 | 235.13 | 235.91 |
| New Zealand (15) | 81.78 | 0.1 | 79.31 | 55.55 | 63.03 | 63.60 | 0.0 | 4.33 | 81.68 | 79.28 | 55.23 | 62.85 | 63.60 | 85.49 | 76.29 | 78.88 |
| Norway (33) | 239.02 | 0.0 | 231.79 | 162.36 | 184.25 | 208.10 | 0.0 | 2.51 | 239.11 | 232.09 | 161.73 | 184.04 | 208.10 | 243.79 | 213.52 | 213.87 |
| Singapore (44) | 443.39 | -0.1 | 429.98 | 301.18 | 341.76 | 287.04 | 0.0 | 1.32 | 443.67 | 430.65 | 300.08 | 341.49 | 287.04 | 465.21 | 355.81 | 363.80 |
| South Africa (45) | 370.21 | 0.3 | 359.02 | 251.47 | 285.35 | 331.09 | 0.0 | 2.54 | 369.09 | 358.26 | 249.64 | 284.08 | 331.95 | 437.76 | 335.91 | 351.46 |
| Spain (37) | 173.72 | -0.2 | 168.47 | 118.00 | 133.90 | 163.20 | 0.0 | 3.39 | 174.03 | 168.92 | 117.71 | 133.95 | 163.20 | 175.89 | 132.75 | 132.75 |
| Sweden (46) | 337.38 | 0.2 | 327.18 | 229.16 | 260.03 | 331.64 | -0.0 | 2.80 | 336.61 | 326.73 | 227.67 | 259.09 | 331.64 | 352.28 | 238.62 | 238.62 |
| Switzerland (38) | 247.37 | 0.1 | 239.89 | 168.03 | 190.67 | 183.34 | 0.0 | 1.54 | 247.16 | 239.90 | 167.17 | 190.24 | 183.34 | 252.34 | 181.68 | 183.30 |
| Thailand (48) | 185.72 | -0.5 | 180.10 | 126.15 | 143.15 | 182.00 | -0.5 | 1.79 | 186.66 | 181.20 | 126.26 | 143.69 | 182.87 | 193.95 | 134.53 | 137.60 |
| United Kingdom (204) | 232.87 | 0.1 | 225.82 | 158.18 | 179.49 | 225.82 | -0.0 | 4.05 | 232.65 | 225.82 | 157.36 | 179.07 | 225.82 | 235.50 | 206.28 | 207.19 |
| USA (629) | 267.57 | 0.0 | 259.48 | 181.75 | 206.24 | 267.57 | 0.0 | 2.16 | 267.57 | 259.72 | 180.97 | 205.95 | 267.57 | 269.11 | 206.41 | 208.55 |
| Americas (775) | 244.14 | 0.0 | 236.75 | 165.84 | 188.18 | 205.18 | 0.0 | 2.16 | 244.13 | 236.96 | 165.12 | 187.90 | 205.16 | 245.54 | 189.06 | 189.09 |
| Europe (723) | 208.68 | -0.1 | 202.37 | 141.75 | 160.84 | 180.67 | 0.0 | 3.05 | 208.80 | 202.67 | 141.23 | 160.71 | 180.75 | 208.80 | 178.19 | 178.91 |
| Nordic (133) | 288.77 | 0.1 | 280.04 | 196.15 | 222.58 | 249.73 | 0.0 | 2.45 | 288.50 | 280.04 | 195.13 | 222.08 | 248.73 | 297.48 | 230.94 | 230.94 |
| Pacific Basin (833) | 168.35 | 0.4 | 163.25 | 114.35 | 129.76 | 118.08 | 0.8 | 1.15 | 167.64 | 162.72 | 113.38 | 129.03 | 116.04 | 171.07 | 148.86 | 157.58 |
| Euro-Pacific (1556) | 185.04 | 0.2 | 179.45 | 125.69 | 142.63 | 141.13 | 0.4 | 2.04 | 184.68 | 179.26 | 124.91 | 142.15 | 140.60 | 185.04 | 166.37 | 166.37 |
| North America (729) | 260.80 | 0.0 | 252.91 | 177.15 | 201.02 | 260.06 | 0.0 | 2.17 | 260.78 | 253.13 | 176.38 | 200.72 | 260.08 | 262.26 | 202.03 | 202.08 |
| Europe Ex. UK (519) | 190.40 | -0.1 | 184.64 | 129.33 | 146.76 | 154.63 | -0.1 | 2.60 | 190.67 | 185.08 | 128.96 | 146.78 | 154.74 | 190.74 | 159.17 | 159.89 |
| Pacific Ex. Japan (352) | 291.56 | -0.0 | 282.74 | 198.04 | 224.73 | 252.78 | -0.1 | 2.94 | 291.57 | 283.01 | 197.20 | 224.42 | 252.89 | 293.58 | 237.71 | 243.10 |
| World Ex. US (1747) | 186.17 | 0.2 | 180.54 | 126.46 | 143.50 | 145.32 | 0.4 | 2.05 | 185.81 | 180.35 | 125.67 | 143.02 | 144.79 | 188.17 | 166.96 | 166.98 |
| World Ex. UK (2172) | 209.04 | 0.1 | 202.72 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 208.81 | 202.82 | 141.23 | 160.72 | 173.51 | 209.04 | 176.09 | 178.09 |
| World Ex. Japan (1895) | 242.33 | 0.0 | 235.00 | 164.61 | 186.78 | 228.44 | 0.0 | 2.51 | 242.36 | 235.25 | 163.92 | 186.54 | 228.48 | 242.36 | 196.03 | 196.45 |
| The World Index (2376) | 211.20 | 0.1 | 204.81 | 143.46 | 162.79 | 180.50 | 0.0 | 2.10 | 210.95 | 204.77 | 142.66 | 162.57 | 180.13 | 211.20 | 178.51 | 178.51 |





## LEGAL NOTICES

COMMONWEALTH OF THE BAHAMAS
IN THE SUPREME COURT
Equity Side

BETWEEN

IN THE MATTER OF
MERIDIEN INTERNATIONAL BANK LIMITED
(In Liquidation)

AND

IN THE MATTER OF
THE COMPANIES ACT 1992

NOTICE is hereby given that the Creditors of the above-named Company which is being wound up by the Court are required on or before the 29th June, 1996 to send their names and addresses and the particulars of their debts or claims and the names and addresses of their Attorneys (if any) to Mr. David P Hamilton and/or Mrs. Alison J. Treco, the Official Liquidators of the said company at P.O. Box N-123, Nassau, Bahamas and if so required by Notice in writing from the said Official Liquidators or by their Attorneys or personally to come in and prove the said debts or claims at such time and place as shall be specified in such Notice or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated: this 26th day of March A.D., 1996.

McKINNEY, BANCROFT & HUGHES
Attorneys for the Official Liquidators
Meridien International Bank Limited
(In Liquidation)

# FT MANAGED FUNDS SERVICE

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## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

### BERMUDA (REGULATED)(**)

### GUERNSEY (SIB RECOGNISED)

### GUERNSEY (REGULATED)(**)

### IRELAND (SIB RECOGNISED)

### IRELAND (REGULATED)(**)

### ISLE OF MAN (SIB RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

### JERSEY (SIB RECOGNISED)

### JERSEY (REGULATED)(**)

### LUXEMBOURG (SIB RECOGNISED)

### LUXEMBOURG (REGULATED)(**)

صكذا من الاصل

# FT MANAGED FUNDS SERVICE

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Credis Investment Funds - Contd.

Pan-Holding SA

Pictet Group

GAM Insurance Co Ltd - Contd.

Royal Life International - Contd.

Royal Scandia Life Assurance Ltd

Cathay Investment Fund Limited

Chemalcon Funds Limited

Chescor Indian Investment Company Ltd

The China Fund

Global Asset Management - Contd.

MD Sass Re/Enterprise International Ltd

MFS Meridian Funds

Regent Kingpin Capital Management Ltd

Regis Asset Management

Republic Funds

## OTHER OFFSHORE FUNDS

## OFFSHORE INSURANCES

MANAGED FUNDS NOTES

*4 pm close April 8*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1996 High | Low | Stock | Div | Yld % | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 22⅛ | 19⅛ | AAR | 0.48 | 2.4 | 21 | 218 | 20 | 19⅝ | 19⅝ | -¼ |
| 44¾ | 38⅜ | AMP | 1.00 | 2.4 | 21 | 4532 | 42½ | 41⅞ | 42 | -1 |
| 93⅞ | 68 | AMR | | | 36 | 5984 | 91½ | 89⅜ | 90⅞ | -1½ |
| 50½ | 37⅜ | ASA | 2.00 | 4.2 | 31 | 883 | 47¼ | 45⅝ | 47¼ | +1¼ |
| 44¾ | 38⅛ | Abbtt | 0.96 | 2.2 | 20 | 21982 | 43⅛ | 41¼ | 43⅛ | +1⅛ |
| 17¼ | 13⅜ | Abitibi Pr | 0.40 | 2.9 | 7 | 901 | 13⅝ | d13⅜ | 13⅝ | |
| 35⅛ | 27 | ABM Ind | 0.70 | 2.1 | 17 | 69 | 34½ | 34⅛ | 34⅛ | -½ |
| 15½ | 13⅞ | Acpincetn | | | 54 | 94 | 15⅜ | 15⅛ | 15¼ | |
| 50⅜ | 37¾ | ACE Ltd | 0.56 | 1.2 | 11 | 1109 | 45⅞ | 45⅜ | 45⅝ | -½ |
| 9⅞ | 9⅛ | ACM Gvt In x | 0.90 | 9.4 | 8 | 397 | 9¾ | 9⅝ | 9⅝ | |
| 7⅞ | 6¾ | ACM GvOpp x | 0.66 | 9.8 | | 350 | 6⅞ | d6¾ | 6¾ | -⅛ |
| 7¼ | 6½ | ACM Gvt Sp x | 0.75 | 11.3 | | 669 | 6¾ | d6½ | 6⅝ | -⅛ |
| 9⅛ | 8¼ | ACM Gvt Se x | 0.90 | 10.4 | | 1214 | 8¾ | 8⅝ | 8⅝ | -⅛ |
| 9½ | 8⅞ | ACM Man x | 0.90 | 9.9 | | 387 | 9⅜ | 9⅛ | 9⅛ | -¼ |
| 31¼ | 17¼ | AcmeCle | 0.52 | 1.7 | 7 | 48 | 30¾ | 30⅝ | 30⅝ | -¼ |
| 9¼ | 6⅛ | Acme Elect | | | 51 | 32 | 6⅛ | d6⅛ | 6⅛ | -⅛ |
| 31¾ | 27¾ | Acordia | 0.72 | 2.3 | 16 | 38 | 31½ | 31¼ | 31¼ | -⅛ |
| 15⅞ | 12 | Acuson | | | 46 | 184 | 14⅞ | 14¾ | 14¾ | -⅛ |
| 19½ | 18⅜ | Adams Expr | 0.36 | 1.9 | 0 | 285 | 19 | 18⅞ | 19 | |
| 21¼ | 16⅛ | AdvMic | | | 6 | 6928 | 18⅛ | 17 | 18⅛ | +¾ |
| 10¼ | 8½ | Advest Grp | 0.16 | 1.7 | 9 | 108 | u10¼ | 9⅝ | 9⅝ | -⅝ |
| 26⅛ | 9⅛ | Advo Inc | 0.10 | 1.1 | 9 | 583 | 9½ | 9⅜ | 9⅜ | -¼ |
| 49 | 41⅛ | Aegon | 1.23 | 2.5 | 15 | 66 | u49 | 48¼ | 48¾ | -¼ |
| 5⅛ | 3½ | Aerflx | | | 8 | 66 | 4½ | 4⅜ | 4½ | |
| 78¾ | 66⅜ | AetnaL | 2.76 | 3.8 | 35 | 9752 | 73⅞ | 72⅜ | 73½ | -1⅝ |
| 33 | 28¾ | Aflac | 0.35 | 1.1 | 13 | 1862 | 32⅝ | 31⅛ | 31¾ | -1⅛ |
| 20⅜ | 17½ | AGL Res | 1.06 | 5.8 | 17 | 831 | 18⅝ | 18¼ | 18⅜ | -⅛ |
| 28¾ | 21¼ | Ahmnsn | 0.88 | 3.7 | 7 | 2886 | 24 | 23⅝ | 23⅞ | -¼ |
| 58 | 50⅜ | AirPrC x | 1.04 | 1.9 | 16 | 1526 | 55⅜ | 54¾ | 54⅞ | -⅛ |
| 28⅜ | 23¾ | Airbrne Frt | 0.30 | 1.2 | 23 | 1006 | 24⅝ | d23¾ | 24¼ | -1 |
| 42½ | 30⅞ | Airgas Inc | | | 34 | 561 | 40¼ | 40 | 40⅛ | -⅛ |
| 18⅞ | 15 | Airlease x | 2.00 | 12.9 | 10 | 714 | 16 | d15 | 15½ | -1⅜ |
| 33⅝ | 25⅝ | AirTch | | | 108 | 17624 | 29⅝ | 28⅛ | 29⅜ | -¼ |
| 30¾ | 15⅞ | Alaska Air | 0.20 | 0.7 | 22 | 4273 | 29⅛ | 28⅜ | 29¼ | -⅝ |
| 20⅝ | 17¼ | Albany Int | 0.40 | 2.0 | 13 | 1262 | 20¼ | 19⅜ | 19¾ | -½ |
| 22¾ | 17¼ | Alberl | 0.22 | 1.1 | 16 | 2611 | 20 | 19½ | 19½ | -½ |
| 43¾ | 32½ | AlbCuB | 0.36 | 0.9 | 20 | 384 | 39⅜ | 37⅛ | 38 | -1½ |
| 38⅞ | 29⅝ | AlCulvr A | 0.36 | 1.0 | 18 | 666 | 35½ | 34⅞ | 35¼ | -⅝ |
| 39⅝ | 31½ | Albsn | 0.60 | 1.6 | 19 | 3204 | 37⅛ | 35¾ | 36⅝ | -⅝ |
| 33⅞ | 28⅜ | AlcnAl | 0.60 | 1.8 | 14 | 4290 | 32¾ | 31¼ | 32½ | +½ |
| 54⅝ | 37⅜ | AlcoSt | 0.56 | 1.1 | 57 | 2937 | 52¼ | 50⅝ | 52¼ | -⅜ |
| 54 | 39⅛ | AlexBrown | 0.80 | 1.6 | 7 | 821 | 51¼ | 49 | 49 | -2¾ |
| 20⅝ | 17⅞ | AlexAl | 0.10 | 0.5 | 13 | 810 | 19⅜ | 19 | 19¼ | -⅜ |
| 21 | 17⅜ | Allegh Lud | 0.52 | 3.0 | 10 | 2002 | 17⅝ | d17⅜ | 17⅜ | -⅛ |
| 30⅞ | 28 | AllegP | 1.68 | 5.7 | 14 | 2208 | 29½ | 29 | 29¼ | -¾ |
| 23¼ | 16⅛ | Allen Con | 0.20 | 1.0 | 15 | 271 | 19¼ | 19 | 19⅛ | -¼ |
| 39¼ | 30⅝ | Allergan | 0.48 | 1.4 | 33 | 1823 | 35⅜ | 34⅝ | 34¾ | -1¼ |
| 25¾ | 21⅜ | Allnce Cap | 1.82 | 7.5 | 13 | 467 | 24⅜ | 24 | 24⅜ | -¼ |
| 12½ | 10 | Allnce Gl | 0.18 | 1.5 | | 339 | 11⅞ | 11⅝ | 11⅞ | -⅛ |
| 34⅝ | 29¾ | Alld Irish | 1.46 | 4.7 | 8 | 8 | 31⅛ | 30⅞ | 30⅞ | -⅛ |
| 59⅜ | 47⅛ | AldSig | 0.90 | 1.6 | 19 | 6027 | 57½ | 56¾ | 57⅛ | -1⅜ |
| 10⅞ | 10⅛ | Allmer | 0.84 | 8.2 | | 91 | 10¼ | d10⅛ | 10¼ | -⅛ |
| 46 | 37⅜ | Allste | 0.78 | 1.9 | 11 | 8675 | 41⅝ | 41⅛ | 41⅜ | -⅞ |
| 35⅝ | 28¼ | AlltelCrp | 1.04 | 3.3 | 17 | 2718 | 32⅛ | 31⅞ | 31⅞ | -½ |
| 5½ | 3⅞ | Allwaste | | | 133 | 289 | 4¼ | 4 | 4 | -⅛ |
| 27⅞ | 22 | AlpharmaA | 0.18 | 0.8 | 36 | 354 | 23½ | 22¼ | 23⅛ | +¼ |
| 39⅝ | 28⅝ | Alumax | | | 6 | 2652 | 34⅞ | 34 | 34¾ | +¼ |
| 64⅜ | 49⅛ | Alcoa | 0.90 | 1.4 | 14 | 9851 | 63¾ | 61½ | 63¼ | +1¼ |
| 34¾ | 24⅜ | Alza Cp A | | | 36 | 2412 | 31⅞ | 31¼ | 31¼ | -⅝ |
| 6⅞ | 5⅝ | AmGovInc x | 0.72 | 12.8 | | 822 | 5⅞ | d5⅝ | 5⅝ | -⅛ |
| 13⅛ | 10¾ | Am Precis x | 0.26 | 2.2 | 17 | 37 | 12⅛ | 11⅞ | 11⅞ | -¼ |
| 9⅝ | 6⅜ | AmaxGd | 0.08 | 1.1 | 19 | 4665 | 7⅛ | 6⅞ | 7 | +⅛ |
| 19½ | 16⅜ | Amcast Ind | 0.56 | 2.9 | 9 | 161 | 19⅜ | 18⅞ | 19 | -¼ |
| 68⅛ | 50¾ | AmdaHs | 0.60 | 1.1 | 13 | 3292 | 57½ | 56¾ | 56⅞ | -⅞ |
| 47⅞ | 42⅜ | AmBrnd | 2.00 | 4.8 | 14 | 2295 | 44¼ | 42⅞ | 43⅛ | -1⅞ |
| 28¼ | 21½ | Am Bus Prd | 0.58 | 2.6 | 14 | 37 | 22⅝ | 22½ | 22⅝ | +⅛ |
| 44⅜ | 39⅞ | AmElPw | 2.40 | 6.0 | 13 | 7781 | 40⅜ | d39⅜ | 39¾ | -1⅜ |
| 50¾ | 35⅝ | AmExpr x | 0.90 | 1.8 | 15 | 11526 | 49⅞ | 47⅞ | 48⅞ | -1¼ |
| 37⅞ | 33¼ | AmGen | 1.30 | 3.8 | 12 | 4702 | 34½ | 33⅞ | 34¼ | -¼ |
| 5⅝ | 4⅞ | Am Govt In x | 0.62 | 12.7 | | 1127 | 5 | d4⅞ | 4⅞ | -⅛ |
| 23⅞ | 21½ | Am Hlth Pr | 2.02 | 9.3 | 10 | 183 | 22 | 21⅝ | 21¾ | -⅝ |
| 23⅞ | 20½ | Am Heritge | 0.72 | 3.3 | 10 | 98 | 22½ | 21⅞ | 21⅞ | +¼ |
| 111 | 94⅛ | AmHome | 3.08 | 2.8 | 18 | 5283 | 108⅞ | 108 | 108⅛ | -1⅝ |
| 3⅛ | 2⅝ | Am Hotels | 0.75 | 26.1 | 71 | 5 | 2⅞ | 2⅞ | 2⅞ | -⅛ |
| 100⅞ | 88¾ | AmIntl | 0.34 | 0.4 | 17 | 10637 | 92¼ | 91 | 91⅝ | -1⅞ |
| 6 | 5⅜ | Am Opp Inc x | 0.66 | 12.3 | | 878 | 5⅝ | d5⅛ | 5⅜ | -¼ |
| 24 | 20⅛ | Am Presd | 0.40 | 1.7 | 10 | 607 | 23⅞ | 22⅞ | 23¼ | -¾ |
| 9⅞ | 8⅝ | Am Real Es | 0.44 | 4.9 | 8 | 58 | 9 | 9 | 9 | |
| 34⅛ | 24⅞ | AmStor x | 0.64 | 1.9 | 15 | 3686 | 33½ | 32½ | 33⅛ | -⅞ |
| 21½ | 18½ | Am Watr 5% | 1.25 | 6.0 | | 13 | 21 | 20 | 21 | +¼ |
| 40½ | 36½ | Am Watr | 1.40 | 3.8 | 14 | 413 | 38 | 36 | 36½ | -½ |
| 34½ | 29¾ | Am Fin | 1.00 | 3.3 | 7 | 677 | 30⅜ | 30 | 30⅛ | -⅜ |



Continued on next page

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4 pm close April 8

## NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

## NASDAQ NATIONAL MARKET

4 pm close April 8

[illegible]

## AMEX COMPOSITE PRICES

4 pm close April 8

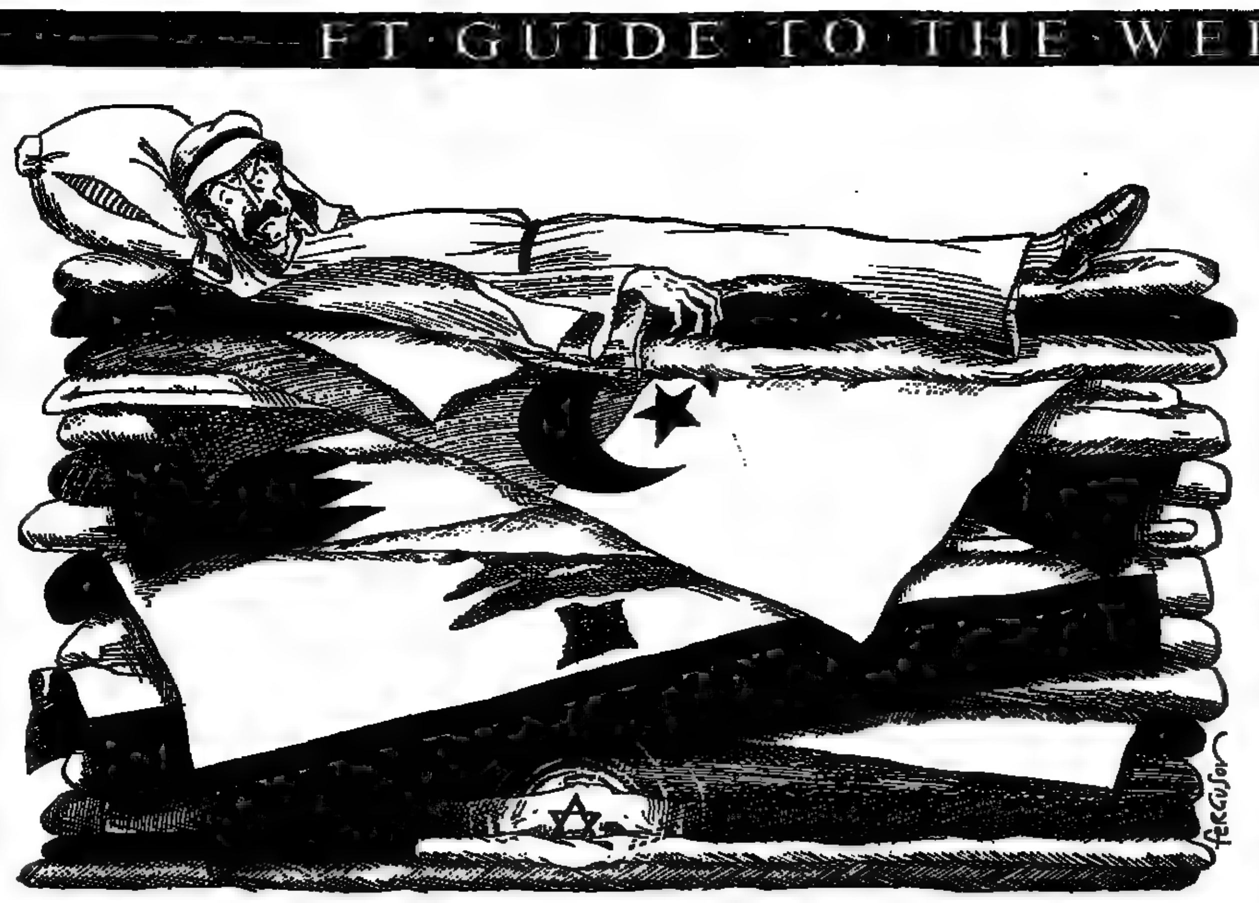
[illegible]

# FT GUIDE TO THE WEEK

## TUESDAY 9

### Israeli nuclear waste alarm

Reports that radioactive waste has leaked from Israel's nuclear reactor at Dimona in the Negev desert will be examined by the Arab League in Cairo. The meeting was requested by the Palestinian representative after the reports surfaced in many Arab publications. Egypt and other Arab states are linking the possible danger from Dimona to the wider issue of Israel's nuclear programme. Although Israel has never confirmed it has atomic weapons, according to foreign reports it has built about 200 in Dimona. Cairo wants Israel's nuclear programme to be dismantled or, at least, inspected by the International Atomic Energy Agency. Meanwhile, the Egyptians are monitoring radiation levels along their border with Israel.



Niggling worries over Israel's nuclear programme come to the fore as the Arab League meets to examine reports of a radioactive leak from an Israeli reactor

### Polish president in Russia

Aleksander Kwasniewski, the president of Poland, started a three-day state visit to Russia yesterday. It is his first there since he was elected last autumn. The opposition will watch closely for signs of a soft line by the former Communist leader on Russia's objections to Polish membership of Nato. Mr Kwasniewski, who seeks to improve relations with Moscow without making concessions, has already travelled to Brussels, Bonn and Paris to establish his pro-European and Nato credentials. General Javier Solana, the secretary general of Nato – whose expansion Moscow considers a threat to its security – will visit Poland on April 17.

### Rifkind courts Latin America

Malcolm Rifkind, the British foreign secretary, arrives in Barbados at the start of a Latin American and Caribbean trip. Mr Rifkind will go on to Jamaica, Mexico, Brazil and Bolivia, where he will attend a European Union/Rio Group ministerial meeting. The aim is to promote British exports and investment, which have lost ground to US trade at a time when Latin America is seen as an area of growing opportunity.

Mr Rifkind, who will make at least one speech about UK policy in the region, is no regional expert – the only Latin American country he has so far visited is Cuba.

### Greek premier meets Clinton

Costas Simitis, the Greek prime minister, will hold talks with President Bill Clinton on his first visit to the US. Greece is seeking support in its disputes with Turkey in the Aegean following a clash between the two countries in January over the status of two uninhabited islets between the Turkish coast and the Greek island of Kalymnos.

Greece is also anxious that, before the summer tourist season begins, the US rescinds an official warning that security at Athens airport is not up to international standards.

### FT Surveys

Asian Telecommunications; Pakistan.

### Public holidays

Israel, Nauru, Philippines, Tunisia, Vatican City.

## WEDNESDAY 10

### Li Peng visits France

Mr Li Peng, the premier of China, visits France as part of a European tour, beginning today. Mr Li will explore ways to extend Sino-French political and economic relations, and will also visit the Toulouse headquarters of Airbus Industrie, where executives of the European consortium are hoping that he will announce new aircraft orders.

### UK in boat people struggle

Repatriating Vietnamese boat people tops the agenda for Jeremy Hanley, the UK foreign office minister, in a two-day visit to Hanoi ending today. Britain and the Hong Kong government are trying to ensure about 19,500 Vietnamese held in camps in the colony, most of whom fled Communist-run Vietnam in the 1970s and 1980s, will be repatriated to Vietnam before China resumes sovereignty over Hong Kong in 1997. The Vietnamese authorities have refused to accept back large numbers because they are not deemed Vietnamese nationals: most are ethnic Chinese.

### Blair at the White House

Tony Blair, the leader of Britain's opposition Labour party, arrives in the US for meetings which include talks at the White House with President Bill Clinton and Vice President Al Gore (to Apr 12). Northern Ireland and the transatlantic "special relationship" are expected to be among the topics discussed. There is also speculation that there may be a deal to lower trade barriers between the US and Britain should Mr Blair and Mr Clinton win their respective elections.

Mr Blair will also breakfast with Henry Kissinger, the former secretary of state, meet congressional leaders and address the British American Chamber of Commerce. His meeting with Mr Clinton is seen as a big coup for Labour.

### Japan-US air cargo deal

The US and Japan are likely to sign a formal air cargo deal after final discussions that are expected to be concluded in Tokyo by Friday. Under the agreement, which was reached late last month, the countries will grant each other's carriers extra flight rights on both sides of the Pacific.

However, the most contentious issue remains unresolved: that of so-called "beyond rights", under which carriers can stop in one country to pick up a load for delivery to another. Peace is all the less likely to break out given that another transport dispute is brewing, this time over passenger flights.

### Chess

Chess grand masters Anatoly Karpov, Jan Timman and Jeroen Piket start the 11th Aegon computer chess tournament, playing exhibition games against computer chess programs in The Hague (to Apr 17).

### Public holidays

Israel.

## THURSDAY 11

### Labour poised to take seat

The Labour party is expected to win a British by-election in Staffordshire South East, taking this Midlands seat from the Conservatives. A Labour victory will reduce the Tory majority in the House of Commons to one. However, this relatively affluent constituency is not easy territory for Labour, and the size of its majority if it wins will be watched closely for signs of whether the party could be flagging in the opinion polls. The seat became vacant with the death of sitting MP Sir David Lightbown.

### Elections in South Korea

South Korea's ruling New Korea party will be struggling to keep its parliamentary majority after a general election, which comes only three weeks after a close aide to the South Korean president was arrested on corruption charges. The president, Kim Young-sam, who has conducted an anti-corruption drive since he took office in 1992, is himself being accused by the opposition of having financed his last campaign from a secret slush fund. The National Congress for New Politics, the main opposition party, alleges the fund belonged to Mr Kim's predecessor, Roh Tae-woo, who is also being tried on corruption charges. Mr Roh and another former president, Chun Doo Hwan, are both in jail.

### Andreotti murder trial

Giulio Andreotti, seven times prime minister of Italy, is to go on trial in Perugia charged with complicity in the 1979 murder of a Rome journalist, Mino Pecorelli, who edited a scandal sheet. Perugia magistrates allege that Mr Pecorelli was trying to blackmail Mr Andreotti. His co-accused are a former foreign trade minister, Claudio Vitalone, and three convicted *mafiosi*. The trial was postponed from February 2. Mr Andreotti is already standing trial in Sicily, accused of being the Mafia's political protector in Rome.

### Nuclear ban treaty for Africa

Egypt hosts the signing of the African Nuclear Weapons Free Zone Treaty, known as the Treaty of Pelindaba. All 53 African states have been invited to sign the treaty and the five nuclear powers – the US, Russia, UK, France and China – will also sign protocols pledging not to use or test nuclear weapons in the region. The treaty will be the world's fourth regional agreement banning nuclear weapons. Others have been signed in Latin America and the Caribbean, the South Pacific and among South East Asian countries. Until recently the main obstacle to an African treaty had been South Africa's advanced nuclear weapons capability. However, a programme to dismantle it has been continuing since 1990.

### Golf

Pickled in aspic, but still a spectacle, the 60th US Masters tournament starts at Augusta, Georgia (to Apr 14). Europe has won more than its fair share of glory at Augusta in recent times, scooping seven of the last 11 Masters titles. If a European is to triumph this time, it could be Scotland's Colin Montgomerie, at present the world's No 2 professional. Many observers will also study the progress of another Scotsman, Gordon Sherry, the 6ft 8in biochemistry undergraduate who is still an amateur and is using the Masters as a springboard to what many believe will be an outstanding professional career.

### FT Surveys

International Hotels; Russia.

### Public holidays

Costa Rica.

## FRIDAY 12

### Arkansas, the final frontier

The eighth annual UFO conference takes place in Eureka Springs, Arkansas, the home state of President Bill Clinton (to Apr 14). The conference will feature delegates' personal accounts of UFO experiences, audio-visual presentations and a panel discussion concerning the existence or otherwise of UFOs.

### Saleroom

The English country house opens its doors in New York this week, with a series of symposia on the subject organised by Sotheby's. The event closes today with an auction of objects that characterised such houses. Among the items for sale are "The start of the Epsom Derby" by John Frederick Herring Snr, estimated at up to $1m (£600,000), and a pair of George III satinwood secretaire cabinets attributed to Chippendale, at up to $500,000.

### Bosnia donors' conference

An international donors' conference opens in Brussels in order to raise the outstanding part of the $1.8bn (£1.2bn) sought for Bosnia's reconstruction in 1996. The sum was proposed by the World Bank in order to jump-start Bosnia's economy, and about two-thirds was pledged last December, but not signed over. More than 50 countries and 25 organisations are expected to attend the two-day conference, which is being hosted jointly by the World Bank and the European Commission. Carl Bildt, the international mediator in Bosnia and in charge of implementing the civilian aspects of the Dayton peace agreement, had threatened to postpone the conference unless the rival Bosnian parties complied with a promise to release all remaining prisoners.

### EU in single currency talks

The European Union finance ministers hold a meeting in Verona, Italy, to discuss preparations for the European single currency. The meeting is likely to focus on the relations between those inside and outside any future single currency, following the request by John Major, the UK prime minister, for a study of this matter. The German proposals for a stability pact are also likely to be debated, together with the issue of the future coinage for a single currency.

### FT Surveys

FT Review of Business Books; Business Parks; Indian Banking and Finance.

### Public holidays

Bulgaria, Ethiopia, Greece, Lebanon, Sri Lanka, Thailand.

## SATURDAY

### Judo

British Open championships, National Indoor Arena, Birmingham.

### Public holidays

Bangladesh, Nepal, Sri Lanka, Thailand.

## SUNDAY

### Pope in Tunisia

Pope John Paul II makes a one-day visit to Tunis, the capital of predominantly Moslem Tunisia. Vatican officials have consistently denied Spanish newspaper reports that the Pope has intestinal cancer and Parkinson's disease, and say the visit will go ahead.

### Badminton

European championships, Herning, Denmark (to Apr 21).

### Public holidays

Egypt, Jordan, Lebanon, Syria.

*Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.*

## ECONOMIC DIARY

### Other economic news

**Tuesday:** As the markets reopen after the Easter holiday, there will be a clutch of economic data to watch this week.

UK manufacturing figures will be analysed closely for any signs of a rebound in activity, following the slowdown at the end of last year. Most economists expect to see some upturn in February, albeit relatively modest.

In Japan, the trade balance is likely to have shrunk slightly in February.

**Wednesday:** The French INSEE survey on household sentiment will be watched for any signs of a return in consumer confidence in March.

In Germany, unemployment data is likely to show a further rise in jobless levels last month – albeit a smaller growth than earlier this year.

**Thursday:** US retail sales figures should point to a continued, small upturn in consumer spending in March.

**Friday:** French and US inflation data should point to continued subdued price pressures in March. Spanish data is also likely to show little acceleration, although its rate of price growth remains one of the highest in the European Union.

### Statistics to be released this week

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|
| Tues | US | Feb wholesale trade | - | -0.6% |
| April 9 | Japan | Feb current a/c (IMF)†† | Y730bn | Y1.2Tr |
| | Japan | Feb trade balance (IMF)†† | - | Y1.3Tr |
| | Japan | Feb foreign bond investment | - | Y484bn |
| | Japan | Feb mach'ry orders, ex-elec/ships* | - | -3.9% |
| | Japan | Feb mach'ry orders, ex-elec/ships** | - | 13.8% |
| | UK | Feb industrial production* | 0.5% | -0.5% |
| | UK | Feb industrial production** | 1.4% | 1.4% |
| | UK | Feb manufacturing output* | 0.3% | 0.3% |
| | UK | Feb manufacturing output** | 0.6% | 1.1% |
| Wed | Germany | Mar unemployment, West† | 16,000 | 57,000 |
| April 10 | Germany | Jan employment, West† | -17,030 | -40,000 |
| | Germany | Mar unemployment, East† | 15,000 | 50,000 |
| | Germany | Mar vacancies, West† | - | 2,000 |
| | Germany | Mar short-time, West†† | - | 74,000 |
| | UK | Feb cyclical indicators | - | n/a |
| Thur | US | Mar retail sales | 0.5% | 0.3% |
| April 11 | US | Ditto ex-automobiles | 0.4% | 0.4% |
| | US | Mar producer price indx | 0.4% | -0.2% |
| | US | Ditto ex-food & energy | 0.2% | 0.1% |
| | Canada | Mar raw materials price indx (adj)* | - | 1.9% |
| Fri | US | Mar consumer price indx | 0.3% | 0.2% |
| April 12 | US | Ditto ex-food & energy | 0.3% | 0.2% |
| | US | Apr Michigan sentiment prelim | - | 93.7 |
| | US | Feb business inventories | 0.2% | 0.6% |
| Fri | US | Mar Atlanta Fed indx | - | -14.9 |
| April 12 | US | Mar real earnings | - | 2.1% |
| (cont) | US | Mar bank credit | - | 3.6% |
| | US | Mar C&I loans | - | 6.0% |
| | Japan | Mar Bank of Japan data | - | n/a |
| | France | Mar consumer price indx prelim* | 0.2% | 0.4% |
| | France | Mar consumer price indx prelim** | 1.9% | 2.0% |
| | Italy | Jan EU trade balance | L0.6Tr | -L0.3Tr |
| | Italy | Feb ex-EU trade balance | L1.6Tr | -L0.3Tr |
| | Spain | Mar consumer price indx* | 0.4% | 0.3% |
| | Spain | Mar consumer price indx** | 3.5% | 3.7% |
| During the week... | | | | |
| | Japan | Mar trade balance (customs cl'd)†† | - | $13.8bn |
| | Germany | Jan trade balance | DM7.3bn | DM7.0bn |
| | Germany | Jan current a/c | -DM2.0bn | -DM3.5bn |
| | Germany | Mar final cost of living, West* | - | 0.5% |
| | Germany | Mar final cost of living, West** | - | 1.4% |
| | Germany | Mar final COL, pan-Germany* | - | 0.5% |
| | Germany | Mar final COL, pan-Germany** | - | 1.6% |
| | Germany | Feb capital a/c | - | DM25.9bn |
| | Germany | Feb manuf'g orders, pan-Germany* | -0.3% | -0.1% (rev) |
| | Germany | Feb retail sales, real** | 0.0% | -1.0% |
| | Germany | Feb retail sales**† | - | -2.0% |
| | Spain | Mar M4 ann* | - | 4.7% |

*month on month, **year on year, †seas/adj, ††not s/adj. Statistics, courtesy MMS International.

## PRIZE CROSSWORD

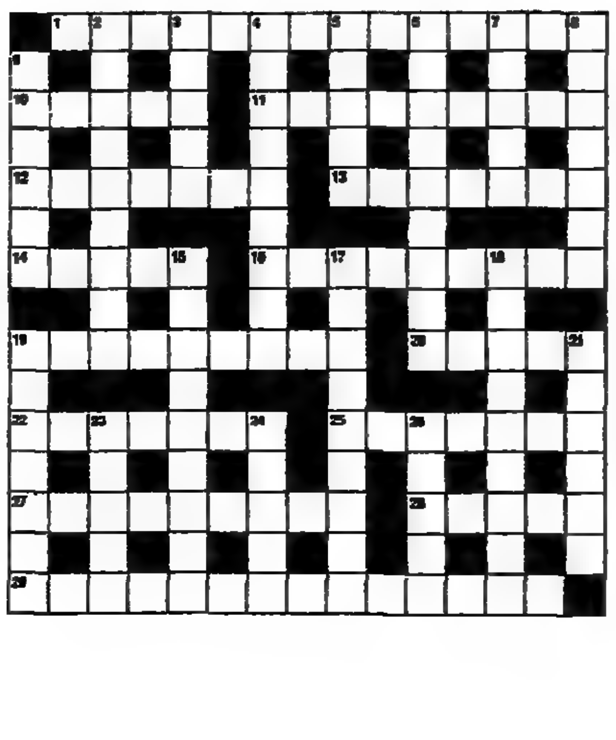
### No.9,038 Set by DANTE

**ACROSS**

1 Favourite places for having tantrums? (8,6)
10 Sprays of flowers (5)
11 They openly work with crooks (9)
12 Animal lover is after foreign currency (7)
13 A number in Malaga out to form a union (7)
14 Standing order from Crete (5)
16 His duties may be an eye-opener to Mexicans on the move (9)
19 Supplies information for close friends (9)
20 Fun with the birds? (5)
22 A tussle for military honours (7)
25 Casual way in which you remove a glove? (3-4)
27 US soldier seizes a scurrilous Italian union leader (9)
28 Wait round front of registry – for her? (5)
29 Devil of a choice by Rattigan (3,4,4,3)

**DOWN**

2 A willing disposition? (9)
3 Score 101, and total up (5)
4 Being urgent, it's sent in a different way (9)
5 Miss Garbo was unusually great (5)
6 In this practice there's a real share fluctuation (9)
7 Dismantle a United Nations oil installation? (5)
8 He collects articles others consider worthless (7)
9 A sweet little thing (6)
15 Schedule means item is thrown out by the board (9)
17 Caught us, to face this sort of sentence (9)
18 Horse swallows mixed grain and fat (9)
19 Visible location for a pub, we hear (2,5)
21 He dines out on the fourth of July (6)
23 Free to be at it – that's great! (5)
24 Border county where Sarah gets work (5)
26 It isn't true it comes to a moral conclusion (5)



A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday April 18, marked Monday Crossword 9,038 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday April 22. Please allow 28 days for delivery of prizes.

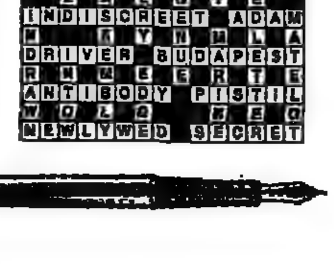
Name

Address

**Winners 9,027**

Bob Thomas, Alicante, Spain
J. D. Spencer, Plymouth
David Grant, Winchester
Mark O'Meara, Hythe, Kent
K. Tomica, Friedrichsdorf, Germany
Peter and Kim Burns, Ilford, Essex

**Solution 9,027**



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# ASIA-PACIFIC TELECOMMUNICATIONS

## Winners in the east will inherit the earth

**International telecoms concerns are fighting to boost their presence in the world's largest market. They face big obstacles, writes Alan Cane**

The centre of gravity of the global telecommunications business is shifting towards the complex mixture of affluence and underprivilege that is the Asia-Pacific region.

The 31 countries of the region already constitute the world's largest market for telecoms products and services, according to the United Nations agency, the International Telecommunication Union (ITU).

It accepts that the average telephone density across the Asia Pacific region is just five per 100 people against a world average of 12 per 100, but goes on to point out the speed of the growth taking place: "In the coming five years," it affirms, "investment in the region's telecoms market is expected to exceed $300bn."

Mr Steve Burdon, managing director of British Telecommunication's Asia-Pacific operations, points out that no operator or manufacturer with serious global intentions can afford to ignore the region: "If a telecoms company wants to be a world leader, it has to be a leader in Asia Pacific. This will be the most important geographical segment by 1996."

This, to some extent, explains the urgency with which BT, which has a limited presence in Asia Pacific, has been seeking a merger with Cable and Wireless of the UK, which holds a majority stake in Hongkong Telecom, one of the key operators. Even the uncertainty over the future of Hongkong Telecom – the consequence of the ceding of Hong Kong's sovereignty to China next year – seems to be no deterrent.

BT is not alone among European operators in seeking to extend its influence in Asia. Last year Deutsche Telekom, Europe's largest operator, paid $586m for a 25 per cent stake in Satelindo, the most recently formed of Indonesia's three telecoms companies.

Significantly, Satelindo is a mobile phone operator. Mobile networks are cheaper and simpler to establish than fixed wireline infrastructures, and once deployed can dramatically cut the time a potential customer has to wait for a connection. It is estimated there could be 80m mobile phone users in the Asia-Pacific region by the turn of the century, more than in either Western Europe or North America.

Telecoms operators from developed countries anxious to invest in the region are having to learn new ways of doing business. Mr Charles Voi of Telstra, the state-owned Australian operator which is planning to exploit its technical, marketing and financial expertise to develop operations in China, Vietnam, India and Indonesia observes that business in North America is based on law, in Europe on logic, and in Asia on relationships: "The negotiations never really end," he says. The Chinese, he points out, measure time in dynasties rather than years.

It is a commonplace to note that the countries of the Asia-Pacific region are grouped together principally by geography rather than heritage, and can show startling differences in telecoms development.

On the one hand Japan is home to NTT, the world's largest company by market capitalisation, with 60m lines and 47.8 lines per 100 head of population. On the other, the Philippines' largest operator, Philippine Long Distance Telephone, has less than a million lines for a population of almost 70m, an average of 1.68 lines per 100 head of population.

The region can in business terms be divided into three broad categories: mature markets such as Japan, Hong Kong and Singapore, maturing markets including Malaysia and Thailand and immature markets such as the Philippines and India.

A common theme, however, is the speed and energy with which each country is transforming its telecoms networks: "getting the infrastructure to the people," as Mr Voi puts it.

Governments in the Asia-Pacific region understand that effective telecommunications underpins economic growth rather than the other way round. They are aware of the clear relationship between the number of telephones per head of population and foreign direct investment.

The Chinese, for example, are laying new lines at the rate of 14.5m a year, a figure roughly equal to half the UK's fixed line network. They are paying for much of the expansion themselves.

Earlier this year AT&T of the US signed a $16m deal with China's Ministry of Posts and Telecommunications to equip China's Beijing-Kowloon trunk line. It will be the longest optical trunk line in China at 3,654km and is only one of 16 major trunk lines due to be completed by 2000.

Other governments are seeking alliances and partnerships with Western companies to help meet the expense of boosting their telephone capacity.

Basic telephony may not be enough, however, given the pace at which much of the rest of the world is moving towards the advanced communication services found on the "information superhighway". The ITU pointed out last year: "One thing is certain, developing countries cannot afford to wait and see what happens. They are already behind in various measures of information penetration and the development gap is greater for advanced communication services than for basic telephone services."

One illustration will suffice: in 1994 there were an estimated 48.9 users of the Internet, the international computer network, per 1,000 inhabitants of Sweden. The comparable number for Japan, where telephony is highly developed, was 4.3, and for India, which has massive improvements to make to its infrastructure, just 0.002.

Advanced communications, the ITU says, can fundamentally alter the entire development paradigm. It comments: "Economic development has traditionally been associated with the movement from rural, agricultural societies to urban, industrial ones.

"Information infrastructures can accelerate this process. But they can also help countries skip whole stages of development ... the building up of information industries can help developing countries participate in the information economy."

With many countries in the region seeking funds to build infrastructure and a growing number of privatisations planned in the telecoms sector, there are questions over whether there will be enough capital to satisfy these ambitions.

In the middle of 1995 Asia's programme of telecoms flotations was forced onto the back burner as market conditions deteriorated. The flotation later in the year of Indonesia's national operator, PT Telkom, caused embarrassment when at the last moment the government was forced to halve the size of the offer and cut the price of the shares after poor support from US investors.

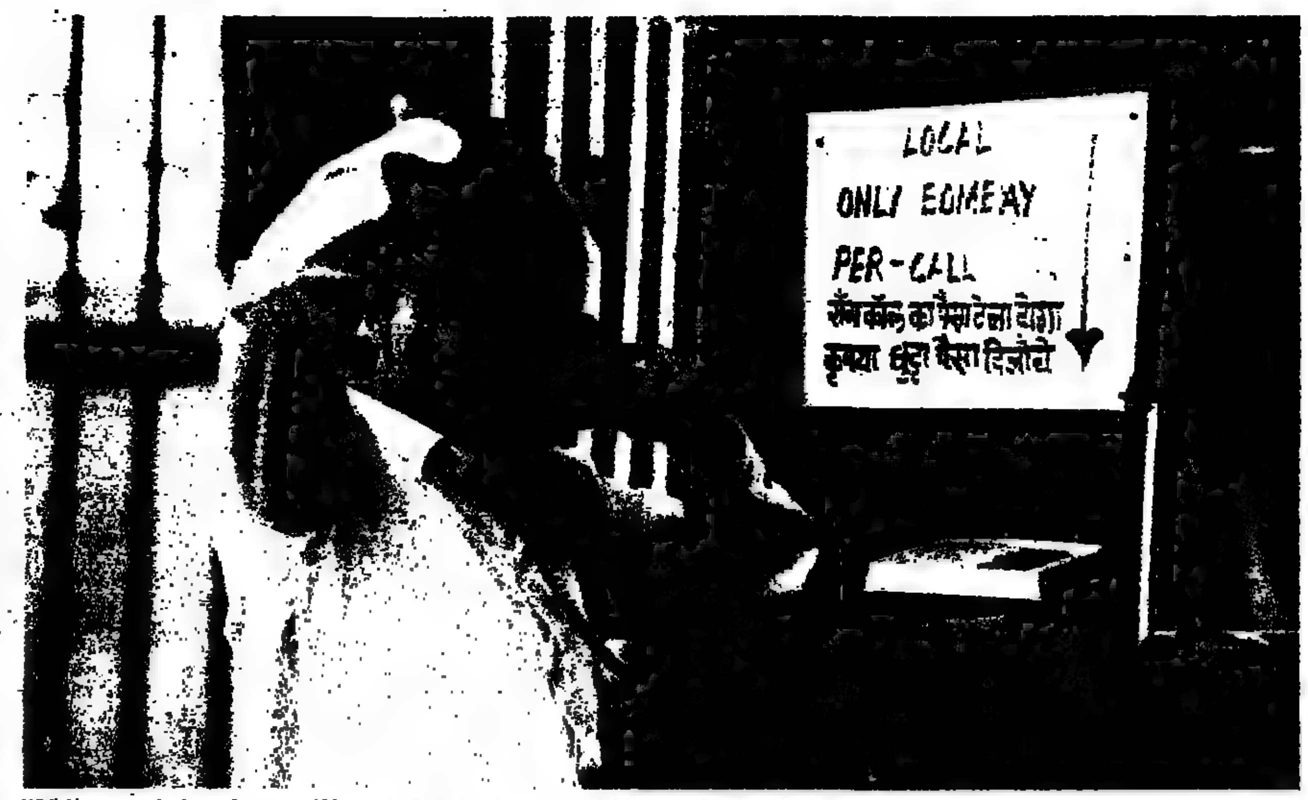
According to Mr Andrew Harrington, Asia-Pacific analyst at Salomon Brothers, investors should take note of a number of new trends. He emphasises the importance of increasing liberalisation as governments try to accelerate the expansion of telecoms by attracting foreign capital: privatisations and other offerings that have already been scheduled or are expected to be announced have a value greater than $4bn a year for the next five years. The number of quoted telecoms companies, he says, has increased more than tenfold since 1990.

He predicts the Asian market is on course for stronger growth: "Capital expenditure in telecoms in the Asia-Pacific region rose from $20bn in 1993 to $25bn in 1994. That represents a 25 per cent increase year on year. I expect this growth to continue."

Japan, the richest country in the region, which has the largest telecoms market, is addressing questions of a different nature. It is slowly opening its market to foreign competitors. It continues to debate the wisdom of breaking up NTT. Earlier this year a government committee recommended that the giant should be split into several regional phone companies and one long-distance operator.

NTT is fighting back strongly, arguing that if it is divided up there will be gaps in services for local businesses and a weakening of Japan's international competitiveness in telecoms research and development. It claims this would lead to stagnation of the country's information technology industry.

It is the kind of dilemma which India, with one telephone for every 100 of its inhabitants, will not have face in the foreseeable future.



With just one telephone for every 100 people, India has huge potential for growth in the provision of telecommunications services Tony Andrews


Japan's highly-developed market is the subject of political wrangling

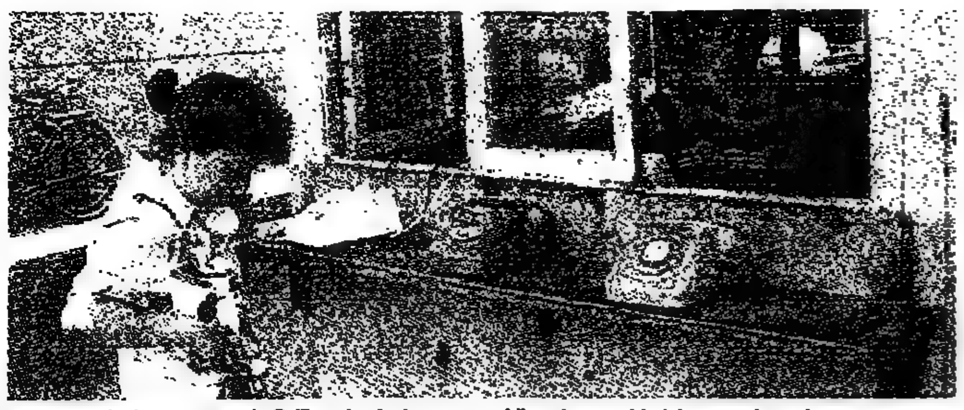
### IN THIS SURVEY



Editorial production: Jonathan Guthrie
Graphics: Robert Hutchison, Steven Bernard

# Subscribers could double by 2000

## The country has ambitious plans for expanding its telecoms network, says Tony Walker


Two technologies: a woman in Beijing checks her pager while using an old-style manual payphone Reuter

CHINA

China's Ninth Five Year Plan (1996-2000), which was unveiled in March, makes it clear that spending on telecommunications will be a priority until 2000.

The plan envisages expenditure of Yn500bn ($60.24bn) in the five years to 2.000, about 70 per cent of which will be allocated to building exchanges and laying fibre optic cables.

Earlier this year Mr Wu Jichuan, minister of Posts and Telecommunications (MPT), outlined an ambitious programme to increase telephone coverage to 30-40 sets per 100 city-dwellers from the present *total of around 13 sets per 100.*

Mr Wu pledged that his ministry would work to give every rural village telephones by the turn of the century – well ahead of the previous schedule. This would help raise the country's telephone coverage rate to 10.5 per cent from the present 4.66 per cent.

If these plans are carried through, the number of subscribers in China will more than double in the next five years from 40.7m – not including mobile phone subscribers – to in excess of 100m. The goal is to create an additional 64.3m subscribers by 2000.

Hitting this target will require extremely rapid growth in China's telephone network. While the cost of an additional 64.3m telephone handsets would be about Yn1bn, the expenditure needed for the infrastructure to support such an explosion of new subscribers will amount to many billions of dollars.

According to the MPT some *79m new lines will be installed* to meet targets for new subscribers. This will in turn require a dramatic increase in the country's public phone switching capacity, at a cost of about Yn70bn.

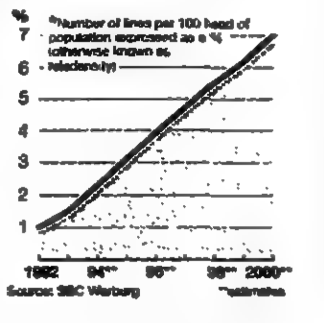
According to a draft outline of China's Ninth Five Year Plan total telephone switching capacity will reach 174m lines, up 89m lines from the 1995 figure of 85m lines.

This surge in China's telecommunications capacity is creating a bonanza for foreign telecommunications companies, but China is seeking a greater share for domestic enterprises.

According to Mr Zhou Daiqun of the Ministry of the Electronics Industry, China has been working on plans to increase market share for local companies in the "lucrative market for exchanges and fibre-optic cable, of which Chinese enterprises are expected to hold 80 per cent by 2000".

At present Chinese companies dominate telephone handset manufacturing – with capacity of about 70m a year, but they hold just 15 per cent of the market for exchanges. Joint ventures involving Siemens, NEC, AT&T, Northern Telecom and Alcatel account for 50 per cent and imports for the remaining 35 per cent.

**Fixed line penetration***



Source: SBC Warburg **estimates

China is looking well beyond 2000 in the development of its telecommunications sector. A recent MPT position paper forecast that 420m lines would *be available in 2010*, more than double the figure for the end of the century. In addition, a "broadband integrated digital network" would be in place to provide interactive multimedia services in the cities and developed coastal regions – China's version of the superhighway.

China is in the process of constructing what it describes as its "Three Goldens" project, consisting of the Golden Bridge, Golden Customs and Golden Card, which are as follows:

- The Golden Bridge will provide a patchwork of data networks that will help China modernise its internal communications services through high-speed links between government ministries, state organisations and companies;
- The Golden Customs part of the project involves upgrading customs service communications to make clearance of goods easier;
- The Golden Card programme is aimed at developing China's credit and debit card systems.

The MPT is just one participant in China's fast-expanding telecommunications market. Chief among the newcomers is China United Telecommunications (Unicom), a venture in which the ministries of railways, electronics industry and electric power are partners. It was established in 1994 and has moved quickly to establish itself since then.

*Unicom is testing the state* monopoly in selected areas. It recently announced it would invest Yn80-100bn over the next five years to secure 30 per cent of the mobile phone market and a 10 per cent share each for local phone calls and long distance calls.

This year it will further expand its mobile phone network beyond big cities and coastal areas. It plans to add 16 cities to existing services in Beijing, Tianjin, Shanghai and Guangzhou.

At present Unicom is obliged to "piggy-back" on MPT networks, but by 2005 it plans to have its own national network in place, and by 2010 to become one of the world's telecom giants.

# State company will play important role

## Foreign investors are queueing up to participate in the liberalisation, writes Laura Tyson

Taiwan's telecommunications industry is to be liberalised after several years of debate and delay, starting on July 1 of this year. The state's monopoly on services will be dismantled and foreign participation allowed for the first time. But concerns have emerged as to whether private sector companies will be able to compete with the state-owned telephone company on an equal footing.

The value of the telecommunications market in Taiwan was estimated at US$5.3bn in 1995, a figure that is expected to double by the year 2000. The strongest growth areas, and the most profitable, will be cellular telephone and paging services. The mobile telephone market is expected to reach 2m subscribers by the end of the decade and the number of users of pagers will jump from 2.5m to 5m. The value of switching equipment and handsets alone during that period is estimated at US$1.8bn for cellular and US$565m for paging.

The legislature made laws in January which will separate the telecommunications regulatory authority from the government-owned provider of services, despite protests by the 36,000-strong employees' union against feared cutbacks in pay and benefits. A new state enterprise, China Telecommunications Corp (CTC), will be spun off from the existing Directorate General of Telecommunications (DGT), which functions as both regulator and operator of the telecommunications industry at present. Eventually the new entity will be listed on the stock exchange and privatised. Foreign investors will be allowed to buy a maximum stake of 20 per cent.

The main impetus behind the much-needed changes was Taiwan's keenness to gain admission to the World Trade Organisation. Liberalisation of the telecoms sector was a requirement of entry. In addition the government is eager to attract multinational corporations to invest in Taiwan, as well as prevent domestic corporations from moving their telecommunications centres offshore in response to the island's high costs and inefficient service.

Much of Taiwan's telecommunications infrastructure lags behind the rapidly rising demands of the market. An individual subscriber can wait five months for a cellular telephone to be delivered. Fast-growing demand for Internet services has swamped the DGT, overloading its systems.

In an effort to catch up, Taiwan's Ministry of Transportation and Communications said on April 1 it intends to sign contracts with UUNET, a US-based provider of Internet access services in June,

TAIWAN

with services beginning in July. The ministry says that within two years, UUNET will establish its regional operations centre for south-east Asia in Taiwan, according to the ministry.

Despite some disappointment among both foreign and domestic telecommunications companies over the final version of the telecommunications law, it is generally agreed that it represents a big step forward and will pave the way for future deregulation as the industry develops.

Foreign companies are unhappy that a ceiling on foreign participation in domestic telecommunications ventures was dropped to 20 per cent from one-third at the last minute. Nonetheless the opportunities are so tempting that this change has not deterred them from trying to enter the market anyway.

Foreigners will be allowed a maximum 20 per cent shareholding in common-carrier service companies, including domestic and international telephone services, cellular and paging services, Vsat (very small aperture terminal, a satellite link service) and CT2 phone services. There will be no restrictions on foreign investment in value-added network services such as fax and data forwarding, remote data processing and on-line information services, including the Internet, computerised airline reservation systems, teleconferencing and format and cable conversion services. Various services will be liberalised in phases.

Foreign concerns are most interested in "wireless" services, such as cellular telephones and paging. The DGT plans to issue licences to three private firms to provide regional mobile phone services. There will be one or possibly two licences each in the northern, central and southern parts of the island, and two licences to provide island-wide services. Two companies will be granted licences to offer national paging services and six others will be allowed to provide regional paging services.

One island-wide licence is expected to be reserved for CTC. Although draft regulations do not prohibit one company from winning more than one licence, it is expected that the 15-year licences will be distributed among as many providers as possible.

At least ten of Taiwan's big business groups, including foods concern President Enterprises, Pacific Wire and Cable and the diversified China Rebar group are queuing up to apply for licences. Many, if not all, are planning to team up with one or more foreign partners. In late March, Hongkong Telecom, the British colony's leading telecommunications company, said it planned to acquire a 26 per cent stake in Taiwan Telecommunications Network Services (TTNS), the largest private value-added network company in Taiwan. According to HK Telecom, TTNS plans to set up a Vsat and pager business in 1996, and will begin offering long-distance calling and international direct dialling services by 2001.

Other consortia expected to apply for licences include: Taiwan's Formosa Plastics group, in co-operation with the US's Pacific Bell; Asia-Pacific Investment, a local investment fund: Taiwan's Pacific Wire and Cable together with Motorola: and Taiwan's Teco, an electronics group, along with Sweden's Ericsson.

**The Internet, multimedia and cable television:** by Kris Szaniawski

# As many strategies as countries

## The region is pursuing telecoms development by a range of different routes

Governments across Asia have woken up to the fact that the region's economic future depends on rapid development of the information sector. But they have different views on how best to achieve this.

Regional organisations such as the Asia-Pacific Telecommunity (APT) and the Asia-Pacific Economic Co-operation (APEC) forum, as well as individual states such as Singapore and Japan, have been busy announcing strategies to implement information infrastructures. Despite well-intentioned initiatives such as the grandly-titled "Seoul Declaration for the Asia Pacific Information Infrastructure", made at the first APEC meeting on the telecommunications and information industries last May, most action has been at a national level.

Japan, Hong Kong, Singapore, Taiwan and Korea have travelled furthest down the road to a multimedia future. But countries like China, India, Indonesia, and the Philippines are still struggling to provide basic telephone services.

The Japanese market is one of the most advanced. In 1994, a special advisory body – the Telecommunications Council – published a plan that envisages the creation of a national fibre-optic infrastructure, to be completed by the year 2010 at an estimated cost of US$300-500 billion. It will cover 20 per cent of the population by 2000.

The government expects that the multimedia market will create 2.4m jobs by 2010 and be as big as the car industry. The Telecommunications Council has recommended that private sector telecommunications and cable television operators should provide the bulk of the funding. The government intended to back this up with interest-free loans, but the Ministry of Finance has scaled down the sums available and made the terms more difficult.

Government indecisiveness on whether to restructure NTT has also delayed progress.

Japan's numerous cable operators have been slow to embrace video-on-demand and interactive services because of a lack of funds and the fragmented nature of their industry. Since last year the government has been trying to encourage consolidation in the market by removing a range of regulatory restrictions.

Singapore was the first Asian country to formulate plans to develop a national information infrastructure. In August 1991 it published its Information Technology 2000 report. This ambitious plan, which pre-dates similar initiatives in the US and elsewhere, calls for the creation of an "intelligent island", where a fibre-optic communications network supports a large variety of advanced information services. Video-on-demand trials have already commenced.

Singapore Telecom is currently installing broadband optical fibre cables to link all of the island's main commercial and residential areas at a cost of around US$100m a year. Singapore's small size, and the fact that most of its residents live in high-rise blocks of flats makes this relatively cost-effective.

While Singapore has remained relatively highly regulated, Hong Kong has concentrated on liberalisation. The monopoly of the colony's main operator, Hongkong Telecom, expired in mid-1995.

Wharf Cable's exclusive pay-TV franchise was also to have expired last year, but on March 20 the Hong Kong government announced that it was delaying the expansion of pay-TV until a review in 1998, limiting broadcasting deregulation to proposals for two new video-on-demand services.

China is channelling massive investments into telecoms. Five years ago the Ministry of Posts and Telecommunications began building a three-tiered telecoms network employing fibre-optic systems, satellite stations and microwave trunks. Last year alone China invested around £6bn in telecoms infrastructure. Even so the country still has one of the lowest teledensities in the world.

In South Korea the government is preparing to sell shares in state-owned Korea Telecom and open up the current duopoly to further competition. Korea Telecom has declared its intention to develop multimedia services domestically and telecoms projects elsewhere in Asia. The government has launched a plan to create a national information infrastructure by 2015.

The Taiwanese government introduced legislation ending its monopoly of telecommunications at the beginning of the year and also has a national information infrastructure plan.

The level of demand for Internet services has been growing rapidly in the Asia-Pacific region. Its level of Internet connectivity lags Europe and the US – the region still has fewer than 5 per cent of computers worldwide linked to the network. Australia and New Zealand still boast the highest penetration rates in the region, due to the dominance of the English language in Internet services. The high cost of leased lines needed to support Internet services and the bottleneck of trans-Pacific cable and satellite links have also acted as a brake on growth.

Some of the region's governments are uncomfortable with the freedom of access to information necessary for an information economy. Since December the Chinese government has been tightening its control on the Internet and other international computer networks. Last month it ordered all users to register with the police.

According to International Telecommunications Union (ITU) analyst Mr Tim Kelly, the region's developing countries have as much to gain from information infrastructure initiatives as developed economies. Building networks capable of providing both telephony and cable television services can, for example, save money by preventing duplication of infrastructure and generating higher revenues.

**Cellular telephones:** by Eden Zoller

# East to outstrip west in two years

## Huge take-up of services means the region is one of the world's most lucrative markets


In some Asian countries cellular phones substitute for fixed-line phones

In two years the Asia-Pacific region will be the largest market in the world for cellular services. The number of its subscribers is set to surpass western Europe's this year and North America's in two years. By the end of 1996 there will be around 70m subscribers to cellular services in Asia-Pacific region, rising to 80m by *the end of the decade*, compared with only 21.5m at end of 1995.

One of the reasons for the dramatic take-up of cellular services in the Asia Pacific region is its the paucity of fixed line services.

Cellular services are cheaper to supply than fixed-line telecommunications, and in emerging markets cellular phones can substitute for them.

Digital cellular systems are particularly attractive as they offer greater capacity and are of higher quality than the older analogue systems. At the moment analogue cellular systems dominate the market and at the end of last year accounted for 84 per cent of the total cellular market.

But the balance is expected to shift dramatically so that by 2004 most cellular subscribers will be on digital networks – about 88 per cent of the subscriber base.

Growth in Asia Pacific will overtake Western Europe and North America mainly because the latter markets are rapidly reaching maturity while key economies in Asia-Pacific are either in the midst of, or on the cusp of rapid growth.

This is already happening in Japan, the largest and fastest growing market in the region, with more than 8m subscribers, which is forecast to have 42m by the end of the decade. China is set to follow Japan and is poised for steep growth – research company MTA-EMCI predicts that by the end of the decade it will have more than 22m cellular subscribers compared with around 3.5m at present.

A key growth factor over the next few years will be increased deregulation of the cellular market.

Japan illustrates the impact liberalisation can have on a market. In 1994 two private sector operators, the Digital Phone Group and Tu-Ka Cellular, entered the market, thereby breaking the monopoly of semi-privatised NTT DoCoMo, the mobile arm of national carrier NTT.

In 1994 there were around 2m cellular subscribers in Japan. There are now more than 8m.

Japan has developed its own unique standard for digital cellular services and cordless systems, called, respectively, the Personal Digital Cellular (PDC) standard and the Personal Handyphone System (PHS).

PHS services were first launched in *Japan last summer* as a cut-price alternative to cellular phones. They have already won 718,500 subscribers.

The degree of liberalisation in the Asia-Pacific region varies. In Hong Kong for example, cellular services are highly deregulated and the competition is frenetic and cut throat. There are three telepoint operators, four cellular operators, and 22 radio paging operators. Cellular operators Pacific Link, Hutchison Telecom, Smartone and Hongkong Telecom are locked in a price war that has seen the cost of mobile phones plummet.

India has just thrown open its cellular market, issuing 36 digital cellular licences to private sector operators that are joint ventures between local companies and foreign telecommunications operators. India is highly unusual in that before the January issue of the 36 licences (two for each of the 18 regional franchising zones) it did not have much of a cellular market. The state-controlled fixed-line network does not provide cellular services, and all that existed were the city-wide GSM services in six big cities.

Taiwan and South Korea are at the other end of the regulatory spectrum, having comparatively closed markets. However, this is about to change as both have announced sweeping plans to open up the market for cellular services.

In January the government of Taiwan passed legislation ending the state-controlled operator's monopoly on fixed and cellular services, and also *lifted the ban on foreign participation* in the telecommunications market.

The South Korean government is expected in the next couple of months to invite bids for three national PCS licences, up to 11 licences for cordless systems, along with licences for radio paging networks. South Korea took the first step towards opening its cellular market last year when it licensed private sector operator Shinsegi Mobile to compete against state monopoly Korea Mobile Telecom.

The market that everyone is waiting to open is China, where subscriber numbers are expected to soar - from 3.5m to 22m by the end of the decade.

China's vast population has a tiny penetration rate for cellular services of around only 0.36 per cent. Demand for cellular services is very high, however, particularly in the designated economic zones in Guandong province adjacent to Hong Kong. The market is set to grow rapidly.

# China flexes muscle

## The rapid pace of reform has been slowed down by Beijing, reports Louise Lucas

HONG KONG

Hong Kong has one of the most liberalised telecoms markets in the world, but the jury is still out on the extent to which that is offset by regulation.

The market has only recently been prised open. Last July Hongkong Telecom relinquished its long-held monopoly on domestic fixed line calls as the colony's pro-competition regulator ushered in three new operators – Hutchison Communications, New T&T Hong Kong (led by Wharf Holdings, an infrastructure to property conglomerate) and New World Telephone, the telecoms arm of New World Development.

When the three winners were announced in November 1993, Arthur D Little, the consulting firm commissioned by the government to assess the future market structure, calculated that the total market size would double in real terms over the next decade, from HK$7bn (US$900m) to about HK$14bn, or *HK$28bn in prices* of the day.

Consumers, it was estimated, would benefit to the tune of some HK$1.7bn in real terms over the next 10 years, thanks to the discounts brought about *by competing networks.*

In the event, liberalisation did not happen as soon as was envisaged. China, whose blessing is required on all licences and matters straddling the June 1997 handover of sovereignty, stalled the process by some nine months as it deliberated over the winning bids. This in turn knocked back the proposed timetables of the new entrants: New T&T, for example, has only just started signing up customers in the last two months.

Nor has liberalisation proved quite what the operators, both new and old, had hoped for. The new entrants complain that key planks of their competing operations have not been decided upon, for example, allowing co-location at what are now Hongkong Telecom local exchanges, waiving the access deficit contribution and properly defining Hongkong Telecom International's external monopoly. All these are now under review.

Mr Leslie Harris, president of New T&T, says: "There is not enough deregulation because the licences were issued without the regulations being in place to fully support them."

But if the new entrants have quibbles, so does Hongkong Telecom. The giant, which is majority controlled by Cable & Wireless of the UK, took a stoic view over the erosion of its domestic monopoly: local calls are already free and as long as the fast-growing international side remained its exclusive province, it felt there was little to fear.

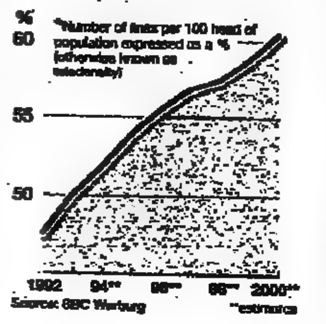
Hongkong Telecom retains its international exclusive franchise until 2006, but the new operators have been able to exploit what is easily the biggest money spinner – international calls – by offering callback services, whereby an outgoing call is bounced back as a (cheaper) incoming call, sharply undercutting Hongkong Telecom's charges.

International calls provide 60 per cent of total revenues for Hongkong Telecom. The company still makes money from a new entrant's callbacks, as it receives a share of the income. Hutchison, which is part of Li Ka-shing's Hutchison Whampoa conglomerate, has been one of the most aggressive discounters, but all participants are fighting it out on prices.

Meanwhile the handful of pure callback companies that have operated in Hong Kong *for a number of years* are determined to hold on to their market share. The battleground should yield at least one winner – the consumer. As Mr Harris says, "We will cut prices further. If that's what it takes, we will do it. We are not investing HK$6.5bn (over 10 years) to be disappointed by indirect competition (effectively resale)."

Price cutting is also the name of the game in the mobile market, a sector in which the rules have changed.

**Fixed line penetration***



Source: SBC Warburg **estimates

Hong Kong now has four operators: Hongkong Telecom CSL Mobile, Hutchison, SmarTone and Pacific Link, part of the Hong Kong-listed First Pacific conglomerate.

The Office of the Telecommunications Authority (OFTA), the telecoms regulatory body, decided two years ago to extend competition in the mobile sector by awarding up to 10 new licences – up to six for the personal communication service (PCS) system and up to four cordless access service (CAS) licences.

The PCS licences, the main thrust of the market expansion, were to have been awarded last July but fell into the same trap as the fixed line licences – the interminable deliberations of Beijing via the Joint Liaison Group (JLG), the body charged with negotiating transitional matters.

The bidders have been active in the ensuing delay. It is understood that Hongkong Telecom, whose bid is understood to have been unsuccessful, has lobbied Beijing to reverse OFTA's decision and award it a licence, while Hutchison is understood to have made a similar visit to Beijing, requesting that the six licences be reduced to four.

*Reducing* the shortlist to four is in accordance with what most of the industry wants as it is felt six new operators will result in squeezed margins. The delay, whether or not at the behest of Hutchison, has already had an impact on the market: earlier this year Hutchison, with Pacific Link hot on its heels, began to slash its handset prices. Tariffs are expected to come down sharply and some bidders are now no longer interested in the PCS licences as the figures no longer stack up.

While Hong Kong's telecoms market is undoubtedly attractive – allowing Hongkong Telecom last year to rake in profits of HK$8.7bn – it is a highly mature one with penetration rates among the highest in the world. The long term attraction is China, which is broadly opposed to foreign investment for now. After the handover, many Hong Kong-based telecoms companies like to believe they will be perceived as "domestic".

# They have the technology

## Deregulation is whetting the appetites of equipment makers, writes John Burton

S KOREA

The rapid deregulation of the South Korean telecommunications market, which begins in earnest this year, is expected to give a big boost to the nation's ambitions of becoming a global supplier of telecom equipment.

Domestic manufacturers are expected to receive most new equipment orders as the number of Korean telecom operators multiplies over the next few years. This will provide the telecom manufacturers with a secure industrial base as they prepare to advance into export markets.

Competition in telecom services has been limited so far. State-run Korea Telecom has dominated the industry, with Dacom its only competitor in international calls and, starting this year, domestic long-distance services.

Korea Mobile Telecom, a former Korea Telecom subsidiary that is now under the control of the Sunkyong group, has held a monopoly in cellular telephone services.

This is all about to change. KMT will face a new challenger in cellular phone services this spring, when Shinsegi, a consortium led by Pohang Iron & Steel and the Kolon textile group, enters the market.

In June, the government will award 30 licences in seven telecom service sectors, including personal communications services (PCS), trunked radio systems, international call services, paging, and wireless data transmissions. More entrants are expected to follow in 1997 when the government further relaxes licence requirements.

The fiercest competition for new licences is in the area of PCS, an alternative to cellular phones that is expected to be highly lucrative once the service begins in 1998.

The government has reserved one of the three PCS licences for Korea Telecom, while another will be awarded to telecom equipment makers and a third to industrial groups not involved in manufacturing equipment.

Although foreign operators now hold minor stakes in some cellular phone and other wireless systems, they are banned from the rest of the telecom market. In response to pressure from the World Trade Organisation, in 1998 foreigners will be permitted to take a shareholding up to 33 per cent in most telecom companies, with a few important exceptions. Foreign stakes in Korea Telecom will be limited to 20 per cent and in Dacom and KMT to 15 per cent.

There is plenty of room for growth in wireless telecom services since the number of cellular phone subscribers amounts to only 2m, which is one of the lowest penetration rates in the region at 3.7 per cent.

Nonetheless, the deregulation of the telecom market and consequent price-cutting are expected to put pressure on the earnings of most established telecom operators, which have enjoyed high profits because of their monopoly status.

KMT, which is one of Korea's most profitable companies, could suffer as a result of competition from the new PCS system, which is expected to be less expensive for customers than cellular phones.

While deregulation poses a threat to current telecom operators, it will probably result in higher profits for telecom equipment makers. The prospect of new equipment orders has led to increased competition between domestic and foreign suppliers.

Korea's four main telecom equipment producers – Samsung, LG, Daewoo and Hyundai – control 70 per cent of the market for switching equipment after they helped finance a state-supported project to develop the country's first high-capacity exchange, the TDX system. AT&T of the US holds the remaining 30 per cent market share with its 5ESS switching system.

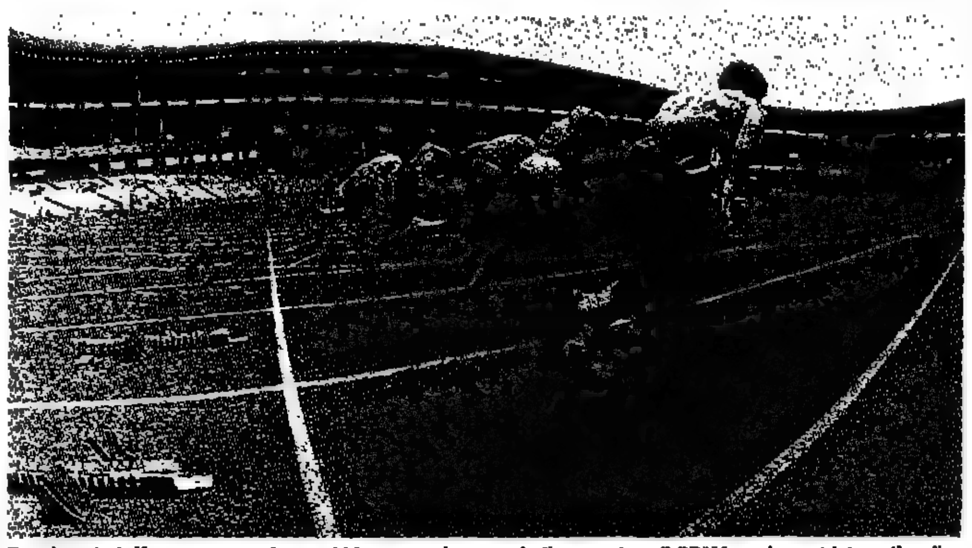
Foreign telecom equipment makers, however, fear that their market share is on the decline as Korean telecom service companies are pressured to select domestic suppliers.

One reason is that the government has chosen telecommunications as a new strategic industry for the country. Another is that Korean telecom equipment makers have become shareholders in telecom operators, which will significantly influence their procurement decisions.

One example of Korea's quest for self-reliance in telecommunications is the government's demand that cellular phone and PCS operators adopt an advanced digital wireless transmission system, known as code division multiple access (CDMA).

Although CDMA was developed by Qualcomm of the US, Korea this year became the first country in the world to commercialise the system on a national basis. Analysts believe the intention was to give Korean companies a head-start in supplying the CDMA technology to other countries that adopt the standard. Korea has already won small export orders for CDMA equipment in the US and Russia.

The dominance of domestic manufacturers in the estimated $4bn CDMA market in Korea has added to foreign concerns that the country's telecom market is still largely closed to competition from abroad.



Running start: Korean companies could have an advantage in the race to sell CDMA equipment internationally

# NTT delays brake market

## Political inertia is delaying the break-up of NTT's monopoly, says Michiyo Nakamoto

On hold: uncertainty over NTT creates headaches for other operators

Japanese bureaucrats are not used to being rebuffed. But for the past decade, the ministry of posts and telecommunications has had to live with the bitter taste of failure in its effort to break-up NTT, the country's dominant telecommunications carrier.

Last month the ministry was, for the second time, thwarted in its crusade to split up the telecommunications giant, by politicians unwilling to take a move that could have grave consequences when they face the electorate some time before next summer.

The ruling coalition, which has the final say on the status of NTT, postponed a decision that was expected by the end of March, leaving not only NTT but the whole future of the Japanese telecommunications industry in mid-air.

The politicians' indecision shows the extent to which telecommunications policy in Japan has been driven by short-term political considerations.

Until a few months ago, it looked as though the ministry's bureaucrats were finally going to see the fruits of years of preparation. Their carefully constructed arguments in favour of a break-up had won over public opinion, and an influential government advisory panel had also called for dismemberment. All that was left was to rally the politicians to their cause.

Unfortunately for the ministry, the Japanese government is currently a coalition that includes the Social Democratic Party. The latter has strong ties with NTT's powerful labour unions, which are concerned that a break-up would threaten jobs and collective bargaining.

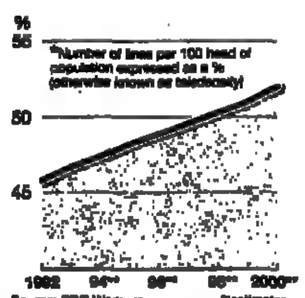
But the longer a decision on NTT's future structure is delayed the greater the danger that Japan will fall seriously behind others in the development of its telecommunications industry.

NTT is not only the largest telecommunications carrier in Japan, it also plays a central role in technology development. It is also the only carrier capable of providing long-distance carriers as well as cellular phone companies with the crucial link to home phones.

Since NTT was privatised and the market was first opened to competition in 1985, the number of carriers has risen from just two to 2,928, including those which do not have their own infrastructure.

Rates have come down substantially and a variety of new services have been introduced. For example, long-distance rates between Osaka and Tokyo have fallen from Y400 ($3.7) for a three-minute call in 1985 to Y180 for NTT and Y170 for its competitors.

Fixed line penetration*




Source: SBC Warburg **estimates

New services which offer users discounts on monthly long-distance calls or on calls to specified numbers have been launched.

But there are serious concerns that the development of Japan's telecommunications industry is lagging behind competitors, in particular the US, and that this gap is widening.

Japan runs a large deficit in the trade of telecommunications technology, according to the telecommunications council, a government advisory panel. In the three years between 1991 and 1994, Japan fell behind the US in R&D in the telecommunications field, the council warns.

Japanese telecoms companies offer fewer services than their US counterparts, it notes. Compared with the 17 types of discount services offered in the US by AT&T, Japan's largest domestic carrier offers only five.

What's more, there is still a considerable gap in rates between Japan and many industrialised countries. Telephone subscription charges are four to 13 times higher in Japan than in the US, UK, or Germany, the council says.

JAPAN

High telecoms rates also impede individual use of on-line services, such as the Internet, putting a damper on the emergence of new businesses.

The telecommunications council, which has spent the last year debating the future of Japan's telecommunications industry, and the telecoms ministry, take the view that further competition in the domestic market is needed.

Although critics of the ministry charge that this can be introduced through further deregulation, both the council and the ministry claim that even with greater deregulation, the domination of the local network by NTT will continue to stifle competition.

NTT's monopoly of the local loop has meant that competitors in the long-distance market are paying nearly 50 per cent of their revenues in interconnection charges to NTT. They have also been prevented from introducing new services as speedily as they might have if NTT had willingly provided access to its local network.

Serious competition in the local network is unlikely to emerge even with greater deregulation, due to the prohibitively high cost of laying telecommunications lines to homes, the ministry believes.

If the goal of introducing greater competition and dynamism into the Japanese telecoms industry is to be achieved, the alternative to a break up of NTT would be a combination of greater deregulation and stricter controls on NTT, to ensure its local network interests do not prevent it from giving long-distance competitors fair access.

Besides going against moves towards fewer government controls on industry, NTT's history of being under the thumb of the telecoms ministry should make it loath to choose that option. But judging from its fierce resistance to any form of demerger, NTT no doubt sees the former prospect as the lesser of two evils.

# A second opinion is needed

## A big sell-off is due in 1997, but politicians are prevaricating, writes Nikki Tait

AUSTRALIA

The next year is likely to be crucial for the Australian telecommunications industry.

For more than five years, the sector has been edging towards full deregulation. Now the date on which open competition is due to start – the end of June, 1997 – is close at hand. But regulatory guidelines and legislation to support the new regime have yet to be determined, and the election of a conservative coalition government last month means that some of the groundwork laid by the previous Labor administration will be revisited.

The hubbub of activity over the future industry environment will be increased by the fact that both of Australia's big telecommunications groups are moving towards stock market debuts.

Optus Communications, which was set up to provide competition to the government-owned Telstra group in the early-1990s, says that it is looking at a flotation in calendar 1996. It is currently owned by a mixture of foreign and domestic institutional and corporate investors.

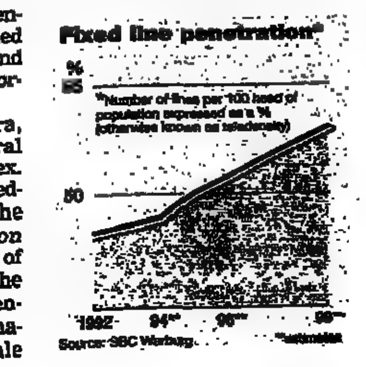
The situation at Telstra, wholly-owned by the federal government, is more complex. In the course of the recent federal election campaign, the Liberal-National coalition pledged to sell off one-third of the carrier's shares during the current three-year parliamentary term. Stock market analysts estimate that the sale could bring in proceeds of around A$8bn (US$6bn).

But how and when the Telstra float will proceed is unknown at this stage. There are potential political complications because the Australian Democrats, one of the minor parties who hold the balance of power in parliament's upper house, are opposed to the sale. The scale of the privatisation – and the restrictions which the coalition has indicated would be placed on foreign ownership – may also tax financial advisers when the flotation mechanics come to be devised.

Nevertheless, the government is expected to start laying the foundations for Telstra's privatisation in its first parliamentary session, which will start in late April.

In the area of broader deregulation, the new government inherits a fairly well-developed framework from its predecessor. Last August, Labor handed down 99 policy principles which were to form the basis of the post-1997 communications environment. Key elements were the removal of any restrictions on the number of network providers/installers; no restriction on the number of carrier licences; and open and seamless network access for all carriers.

Fixed line penetration*




Source: SBC Warburg **estimates

The regime envisaged fairly stringent social conditions. Carriers, for example, would be required to offer codes of practice to ensure consumer protection. In addition, they would have to draw up industry development plans, "detailing involvement with the Australian telecommunications supply industries".

Critically, Labor's proposed framework also relied on industry-devised codes of practice covering interconnection rights and access. These were to be registered with the Australian Competition and Consumer Commission, the country's main competition watchdog, which would supervise all activities relating to competition.

The broad expectation is that much of this – including the lack of limit on the number of new entrants to the market and the statutory right of interconnection – will be taken on board by the coalition.

In recent weeks, there have been some urgings from within the industry to either delay the process or rethink the principles: Telstra, for example, is known to favour a more generic competition model, whereas Optus is emphatic that industry-specific legislation is essential, given Telstra's market dominance. But any substantial backtracking on the timing and nature of deregulation would open the government to heavy attack, and run counter to election promises.

That said, the coalition is expected to incorporate a few distinctive features. It pledged, for example, to impose a "customer service guarantee" on telephone companies. This would entitle consumers to rebates on their bills if service on new connections and repairs fall below set standards. It also promised to make high-capacity digital links widely available in both metropolitan and rural areas.

In any event, the timing will be tight. Telecoms executives say that their best hope is that the revised draft legislation can go out for consultation in a few months. This would allow the industry to offer comments during Australia's winter in time for the legislation itself to be introduced into parliament in the last quarter of 1996.

The industry expects to get to work on the access codes separately and have these in place by March next year at the latest.

In spite of the uncertainty over the legislative framework, there is already speculation over how the market will develop after the middle of next year. Mr Robert Simpson, director with responsibility for legal and regulatory issues at Optus Communications, claims competitive pressure should not mount too fiercely as a result of the proposed deregulation.

He points out that there are already a large number of international telecoms companies – including British Telecom and Telecom New Zealand's Pacific Star – who are actively providing resale services. "Very few are going to become carriers, and we have already been living with service providers," he says.

# Two more join the scrum

## Terry Hall finds stiff competition among global operators trying to enter the market

NEW ZEALAND

Many of the world's biggest telecommunications companies are slogging it out to win business in New Zealand, which considers itself the most deregulated market in the world.

Last month two more joined in: Telstra of Australia, and Britain's BT which took a quarter share in Clear Communications, the country's second largest telephone network. Others include MCI International, which is also a Clear shareholder.

Bell Atlantic and Ameritech control Telecom New Zealand, the former Post Office utility. Bell South, which is 35 per cent owned by the Singapore Telecom, is an aggressive competitor in the cellular business. AT&T is also active in this market, and the Todd Corporation of the US is a key stakeholder in the entertainment cable channel, Saturn.

The government relishes the competition. Maurice Williamson, minister of communications, says that New Zealand's "unique" lack of competition over the past six years is producing real benefits for business efficiency and ordinary consumers. He says that by deregulating telecommunications, part of the sweeping free market reforms of the past decade, New Zealand has been placed at the leading edge of social and economic change. Telephone deregulation was a factor in the country's strong GDP growth.

Mr Williamson, a staunch advocate of "light handed" regulation, argues that a competitive environment with few rules encourages efficiency, provides customers with a greater choice and lower cost services, and encourages a faster uptake of new technology.

Following this policy, Mr Williamson effectively stood aside from industry issues. This included the five year legal battle between Telecom and Clear over the latter's rights to access to the Telecom network. This was resolved between the two companies in late March and a few hours later BT announced it was buying its stake in Clear.

The competing companies have invested substantial sums establishing themselves in the market. Telecom is spending around NZ$500m (US$343m) a year upgrading its network. Clear has invested NZ$160m, and Bell South has spent NZ$170m on building up its cellular network.

A number of New Zealand-owned companies are also aggressive competitors. They include BCL, which is controlled by Television New Zealand, and Sky Television, which is developing a mobile digital radio system. The new arrivals, BT and Telstra, have both signalled they intend to play key roles in the industry.

BT is expected to help Clear grow its market share from its 25 per cent level, and Telstra says it will invest heavily to ensure it has 10 per cent of the local market within three years.

# A monopoly under siege

## SingTel will face its first domestic competition next year, writes Jenny Walker

While its neighbours have been rapidly liberalising their telecommunications markets, Singapore has remained one of the world's last bastions of the telecoms monopoly.

Singapore Telecom (SingTel), which is still 89 per cent owned by the government, holds an enviable monopoly to provide local, international and wireless services.

SingTel has thrived under the guidance and protection of the government. It has developed the island's telecommunications networks into one of the world's most advanced. Fibre-optic cables criss-cross Singapore like a subterranean web, running into thousands of offices and homes.

Indeed by most traditional measures, Singapore's network ranks alongside the very best; it is on a par with the UK, with 46 lines per 100 head of population. But it is well ahead of its former colonial owner in network digitalisation – British Telecom's (BT) network is still a little under 90 per cent digital whereas Singapore's has long been 100 per cent digital.

Despite the lack of competition in its domestic market, SingTel has a reputation for being both entrepreneurial and progressive in its use of telecoms.

Singaporeans spend far more on telecommunications services than almost any other nationality, so the company has been racking up considerable profits. SingTel, which is the largest listed company on the Singapore Stock Exchange, produced pre-tax profits of US$1.26bn last year.

International calls account for a sizeable chunk of SingTel's revenues – a little under half of the total last year – and the company has seen its operating margins squeezed following a series of IDD (international direct dial) rate cuts over the past two years. However its monopoly over the telecoms sector means it has far less to worry about in this regard than many of its peers. Hongkong Telecom, its long-term rival for regional hubbing business in the Asia-Pacific, for instance, is seeing three new fixed-line competitors cut slowly into its international-call revenue streams.

Mobile phone users will have greater choice in 1997, when a second operator enters the market Sarah Murray

Industry analysts have been more troubled by the impact of SingTel's overseas investments than they have by any fall in IDD income. The company been steadily piling up acquisitions over the last few years, culminating in the acquisition of a shareholding in Belgacom in March of this year.

SINGAPORE

The 13 per cent stake in the Belgian national operator, which SingTel holds through its share in a consortium that also includes Ameritech of the US and the Danish phone company TeleDanmark, will set it back around $670m. Prior to the Belgacom acquisition, SingTel said it was already expecting losses from its overseas investments to peak over the next two to three years.

SingTel has long held the aim of making its overseas activities its principal growth drivers – well ahead of competition in the domestic market – and has made investments in a plethora of ventures worldwide. These span interests as diverse as cable TV in Stockholm and cellular services in Suzhou, China. In Asia its strategy has been to snap up service licences as they surface, operating as a partner in joint ventures with local firms; in Europe it has taken direct equity stakes.

SingTel now has 28 investments in nine countries around the world. Analysts agree that the international market will produce most of the company's future revenues. They warn, however, that SingTel is likely to continue to shoulder losses from these investments for some time to come.

Underpinning SingTel's undoubted success both in the domestic market and overseas, has been the government's strategy of using communications as a key springboard for economic growth.

Government policy has encouraged SingTel to pursue a two-pronged growth strategy: to take advantage of high-technology developments and expand its range of services in the domestic market, and to exploit overseas investment opportunities at the same time.

The government and the sector regulator, the Telecommunications Authority of Singapore, have come in for frequent accusations of double standards, however, in relation to SingTel's protected status. As Singapore is expecting openness in markets overseas, many observers – including a number of World Trade Organisation members – believe it has been less than fair in the opportunities it offers in its domestic telecoms market.

Singapore maintains that its "pro-competition" policy is making steady headway. Nevertheless SingTel will still be offering fixed-line services without any competition well into the next century.

The first real cracks in SingTel's monopoly will emerge in 1997.

Around May of that year a new cellular operator, MobileOne will make a big publicity splash when it launches the first alternative to SingTel services in cellular phones and paging. The company is a joint venture between the local Keppel Group, Singapore Press Holdings, Cable and Wireless and the latter's highly-successful Hong Kong subsidiary, Hongkong Telecom.

MobileOne has had a long time to prepare for its debut. It is planning a dual assault on the business and residential markets by launching two simultaneous cellular networks, in what it legitimately describes as a "world first".

Cellular phones and pagers have proved extremely popular in Singapore as they have elsewhere in Asia. Even with one of the highest penetration rates in the region, at over 8 per cent, SingTel's mobile unit, MobileLink, was still piling on subscribers at a rate of 6,000 a month last year.

The Singapore cellular market is set to become a battle ground as MobileLink and MobileOne struggle to win the most subscribers.

# A shake-out is on the cards

## Operators await their fate as a thinning of the ranks impends, says Sid Astbury

In telecoms, choice is fine but six phone companies, seven cellular firms, and three payphone operators does seem excessive for 19m people.

That is the current thinking in Malaysia, where the government has just gone through the embarrassment of repudiating a plan for the telecommunications industry that it unveiled with much fanfare only two years ago. After showering licences on lots of local contenders, officials in Kuala Lumpur now say that too much competition is bad, and that some of these permits will have to be revoked.

According to Prime Minister Mahathir Mohamad, the man responsible for both the 1994 blueprint and its 1996 reversal, mergers leading to the creation of three or four companies are needed. Mr Leo Moggie, the minister of telecommunications, is more precise. He says the top limit for full service operators is three.

The fate of cellular companies and payphone operators may be decided later but there is expected to be winnowing there as well. Mr Moggie refuses to name the lucky trio but the likely winners are:

■ Telekom Malaysia, the mostly government owned former monopoly provider that was listed seven years ago and is now the biggest company on the Kuala Lumpur Stock Exchange (KLSE)

■ Technology Resources Industries, better known as TRI, the listed parent of Celcom, which runs the country's most successful cellular service with more than 75 per cent of all subscribers

■ Binariang, a latecomer scheduled for a KLSE listing this year or next and already 20 per cent owned by the Baby Bell, US West. In January it launched the country's first telecommunications satellite, and plans through this to expand from cellular to wired services, including multimedia and television.

The likely losers are:

■ Time Telekom, politically well connected and a member of the giant Renong group. It came to the sector late but has ploughed money into a fibre optic network stretching a total of 2,700 kilometres

> There would be a political price to pay if Telekom's shares took another beating on the market

■ Mutiara, an offshoot of Vincent Tan's Berjaya Group, which has not invested heavily yet. It could decide to sell but stay in business as a cellular operator

■ Syarikat Telefon Wireless, a tiny company with only 1,000 subscribers and a very long shot for success. It seems unlikely to complain too much when the axe finally falls.

There are flaws in Dr Mahathir's reasoning that mergers are needed in an over-indulged industry. Why would a telecommunications company that is allowed to operate want to buy one that cannot and how can redundant telecommunications capacity be priced?

That said, however, there is a lot of support for thinning the ranks – whether ordained by the government or orchestrated by market forces. Mr Martin French, the managing director of Credit Lyonnais Securities in Kuala Lumpur believes there are too many licences.

MALAYSIA

A typically Malaysian solution would be for the winners to buy out the also-rans at close-to-market value. A scenario where the losers bring breach of contract suits against the government is unlikely.

If they did object strongly, they would face being frozen out of any future contracts awarded by the current group of politicians.

But whichever way the impasse is broken, Malaysia's privatisation programme will lose credibility. The government seems likely to intervene in the market to pick winners after promising just two years ago to leave the telecommunications sector free from state interference.

Yet the alternative to government intervention is none too attractive. Allowing too many contestants to slug it out would not only be painful for the combatants but also for the banks which are financing them.

There is another rationale for the government's decision. The promise of a free-for-all has blighted confidence in the KLSE's top stock, Telekom, which is trading way off its highs. There would be a political price to pay if Telekom were to get another big battering in the market. It is a favourite of small Malaysian investors and is often the only blue-chip stock which they hold. The government ruling is, therefore, a pre-emptive strike.

Analysts say Telekom has yet to feel the heat from competitors in either its domestic or international business. According to Mr Tim Leaky, an analyst with HG Asia, investors are going to have to recognise the risk from competition on Telekom's earnings in 1997.

Mr Soon Teck Onn, an analyst with Baring Securities in Kuala Lumpur likens the situation to a race in which the three back-markers drop out. "That doesn't lessen the competition at the front." But the government is not out of the woods yet. Time and Mutiara have both signalled their unwillingness to simply throw in the towel and give up their international gateway licences. Time has invested US$1.6bn and has yet to see a significant return.

The government is hoping these two can be persuaded to merge or to operate independently as service providers to the winning trio.

The shake-out among the full-service providers is not seen as a pattern for what will happen in the crowded cellular sector. The seven companies desperately seeking customers among Malaysia's one million handphone users are expected to merge with each other without an invitation from the government to do so. Already there is talk that the field will soon be down to five.

Olle Ulvenholm, the managing director of Swedish telecommunications giant Ericsson's Malaysian operation, notes that mobile phone penetration has reached just 5 per cent of the population and is expected to rise to 10 per cent by the year 2000. There is plenty of business to go round.

# Sell-off delays test patience

## Controversy has slowed the sale of the main telecom utility, says Farhan Bokhari

The response of investors to the proposed privatisation by summer this year of Pakistan Telecommunications Corporation (PTC) is going to be an important test for the rest of the country's programme for selling off state corporations.

In the period of more than five years since the government decided to sell public sector companies, delays in bringing PTC forward for sale have tarnished its image. The plan now involves the sale of 26 per cent of the shares and the transfer of management control to a new buyer.

The privatisation of PTC was first dogged by concerns over national security matters, with the defence forces arguing that privatisation would expose the state's telecom network to dangerous influences. The government subsequently agreed that part of the money raised would go towards creating a new, secure network for Pakistan's government offices and defence forces.

A rapid fall in the company's share prices in the months following the first sale of 11 per cent of its shares, in August 1994, also resulted in further controversy. Many investors became concerned after revelations that the company had overstated by up to 25 per cent the number of telephone lines in service, rendering projections for future revenues inaccurate.

The government now says that it has thoroughly reviewed all information going to potential clients to avoid a repeat of past mistakes, and it has been at pains to stress the company's attractions for investors. Pakistan, with a population of 130m, has has only around two phone lines for every 100 people. A 25 year operating licence will be given to the new management, including a seven year monopoly.

Mr Naveed Qamar, chairman of the government's privatisation commission says that a new buyer would not only find lucrative opportunities in Pakistan but also across the surrounding region. "It is the entire telephone network of a very large country, strategically located....as a way of entry into south Asia and a gateway into central Asia".

The PTC earned a net profit of Rps16.835bn ($495.1m) for the fiscal year which ended in June 1995. Profits for the current year (June 1995-July 96), are projected to rise to Rs18.767bn (US$551.97m), an increase of more than 11 per cent. Revenues totalled Rs33.06bn ($972.35m) last year (1994-95), and are expected to increase to Rs38.1bn. ($1.12bn.) during the current year (1995-96).

PAKISTAN

Many investment analysts, including Mr Nader Morshed, chief executive of Taurus Securities, a large brokerage house in Karachi, are convinced that a successful conclusion of the PTC deal would help the country's overall business climate which was badly affected by last year's violence in the southern port city of Karachi.

Stock market traders marked down PTC shares soon after trading began

Many share prices, including PTC's, fell sharply.

Some officials are hoping that the 26 per cent share offer will raise more than US$2bn but many independent analysts predict bids considerably lower than government expectations. Stock market conditions, and the earlier controversy over the PTC, have together forced the company's share value to drop by more than 30 per cent in just under a year, and this is expected to affect investors' valuation of the company.

Last year's closure of mobile telephone services in Karachi (see accompanying article) may also worry potential investors. One leading businessman says: "A precedent has been set that real or imaginary security issues can cause a closure even of such an essential service. The government will have to convince buyers that such action will not be repeated in future."

The new buyer's ability to continue to exercise control over the company's management from a base of only 26 per cent of the shares is a further cause for concern. A leading stockbroker in Karachi says: "There will be room for management takeovers and buyouts by others....because the 26 per cent ownership will only be a minority stake."

He suggests that the government give written guarantees that the 26 per cent stake would be equivalent to a 51 per cent voting stake on important issues such as a change of management.

Government officials in Islamabad play down such concerns, arguing that the seven year monopoly licence and twenty five years operator licence should be sufficient guarantees. The government is also prepared to give the first option for the purchase of another 25 per cent shares to the new owner of the PTC, in about two years time after the initial purchase, enabling the stake to be raised to 51 per cent.

# Immobile communications

## Farhan Bokhari, describes the impact of a ban on mobile phones in Karachi

A group of traders in the middle of the trading floor of the Karachi stock market shout into their phones, taking orders from clients. Just a year ago, this would have gone unnoticed. But now carrying a phone in public can make you an outlaw.

Karachi's security problems last year prompted the government to ban the use of mobile telephones and pagers in the city. The action was taken on the advice of intelligence agencies and was intended to disrupt the communications of armed groups. More than 2,000 people were killed across Karachi last year. Many died in armed encounters between paramilitary troops and local militants, who are demanding more political representation and jobs.

The closure has dealt a severe blow to the city's business confidence. Mr Zaffar Moti, a stockbroker says: "Our speed and efficiency has been affected. Lahore (Pakistan's second business city) has an edge over us because they have mobile phones."

Stock market traders have switched to long range cordless phones, connected to base phones in nearby offices, which are still legal. But the price of these phones has doubled in some cases to Rs55,000 ($1,540) each.

The country's three mobile phone companies and two pager services are reeling under the pressure of the closure. Almost a third of the 65,000 mobile phone connections in Pakistan were held by clients in Karachi. One top executive of a mobile phone company says the companies have lost up to $20m in revenue and have had to cut staff. Local businesses estimate that the three companies known as Mobilink, Paktel and Instaphone, have together invested up to $160m in Pakistan.

The closure has also intensified worries over Karachi's security problems. Users once counted on their mobile phones to call for help in an emergency.

One Western diplomat in the city says; "Many people saw the mobile phones as an important security aid. The closure has added to their sense of insecurity. Not everyone can use a weapon so the phone was the next best option".

Some businessmen claim that the closure has been futile because the militants have switched to other means of communication, such as powerful wireless sets. In recent months a security clampdown across Karachi has helped to restore calm. Encouraged by its recent successes in hunting down armed militants, the government has begun a review that could allow mobile phones to be used again by this summer.

# Private sector will add weight to reform

**After serious initial delays, a rickety network is being shaken up, says Mark Nicholson**

Of more than $2bn in actual foreign direct investment inflows India expects to receive this coming year, an estimated 15-20 per cent will be devoted to the telecoms sector.

In little over a year since the government detailed its plans to allow private and foreign companies to compete with the existing, overstretched public network, the country's highly ambitious telecoms liberalisation programme is, after some hiccups, well under way.

The government has held two bid rounds for private provision of basic telephone services in 20 "circles" – roughly equivalent to Indian states – and secured commercial bids for all but eight. Licences are due to be granted for the winning foreign-Indian combines to begin work within weeks. A third round of bidding for the remaining circles, mostly in India's poorest regions, is due to open on April 15.

Cellular services started in India's four biggest "metro" cities, New Delhi, Bombay, Calcutta and Madras, in autumn of last year.

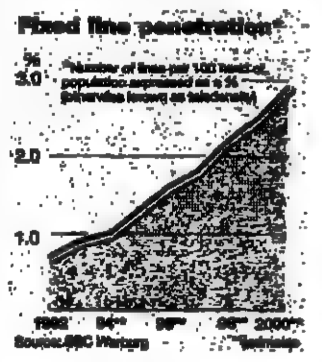
By this autumn, cellphone services will begin their conquest of India's other big cities and, increasingly, better-populated rural areas. This is the fruit of a concurrent bid round to provide two competing private cellular operators in the 20 regional circles defined by the department of telecommunications (DoT). So far 34 Indian-foreign joint ventures have secured licences in 18 circles, the exceptions being the remote Andaman and Nicobar islands and the troubled state of Jammu and Kashmir. Each of the 34 bid winners is obliged to begin services by the year's end.

Such is the present progress of Indian telecoms privatisation, a process which has encountered and so far survived its share of hurdles. Most awkward of these was a serious political row over the award of the first batch of licences for provision of basic services, nine of which were won by the little-known Himachal Futuristic Communications Limited (HFCL) with an initial total bid worth Rs850bn ($25bn), a figure well in excess of its competitors and one considered unfinanceable by bankers and competitors.

The government's decision following this first round to cap the number of circles for which any single company could hold licences to three, for the potentially richest zones, led to an outcry from opposition politicians that Mr Sukh Ram, telecoms minister, was effectively bailing out HFCL, a company based in the minister's home state.

Earlier this year the government opened re-bidding for the basic services circles vacated by HFCL. To the annoyance of bidding companies, it rejected 15 of the 20 initial bids it received as "unreasonably low", and imposed reserve prices for each, in all cases higher than those secured in the first bidding round.

The government has since lowered the reserve prices for the states of Kerala, Madhya Pradesh, Uttar Pradesh (east), West Bengal, Andaman and




INDIA

Nicobar, Assam, Himachal and the North East, which received no renewed bids. A third round of bidding will open for these circles in April.

The success of private entrants to India's basic services is the bedrock of the government's telecoms policy – critical to its desire to lift telephone density from the presently miserable level of one telephone per 100 citizens. The government's goal is to increase this figure to six per 100 by early next century, still only the average for other developing countries, and to have at least one telephone in each of India's 600,000 villages. By last year, 48,000 villages were served.

The DoT continues to extend its own services, but cannot keep up with demand, or provide the investment needed to do so. Last year it added a record 1.7m new lines, 22 per cent more than the preceding year, but this still left an official waiting list – which considerably underestimates suppressed demand – of 2.1m potential subscribers. By the end of last year, the state had 20,455 exchanges offering a capacity of 12.8m lines, of which just 10.6m were actually working. The ministry itself has budgeted to spend Rs387bn between 1995-97, 76 per cent of which is due to be financed from internal resources.

But for the next year at least, it will be the growth of cellular services – in which the state is not present – which will command the bulk of investment and progress. Not all of the 14 joint Indian-foreign telecoms ventures licensed for the 18 cell circles have finalised their partnerships. Most are still in the thick of finalising supplier contracts and financing. The latter objective may be difficult to achieve in current straitened economic conditions.

The public-sector telephone service is under-resourced

Cellphone groups are expected to need a total of more than $5bn over the next two or three years to begin operations.

Some groups, nevertheless, have already begun staffing and equipping cellular services, which could become operational by October in states including Gujarat and rural Maharashtra, Uttar Pradesh, Orissa and Bihar.

The combine of AT&T with the Birla group, the diversified Indian business house, has already settled on sites for its General System for Mobiles cell sites, awarded a Rs5bn equipment contract to Ericsson of Sweden for cell sites and switching stations and begun hiring the 350 or more staff needed to support its services in Gujarat and Maharashtra. The company expects to have between 35,000 and 40,000 subscribers within a year of starting up.

Meanwhile Koshika, the telecoms arm of the Indian Usha Group, is finalising its partnership with Philippines Telecom, but has also already awarded a $100m supply contract to Alcatel, the French telecoms group, to equip cell sites in the contiguous states of Uttar Pradesh, Orissa and Bihar – three of India's poorest. Despite the predominantly rural areas it is to cover, the company believes it can win between 2m-3m subscribers within a decade, and around 400,000 within the next two to three years.

# Tiny but ambitious

**Foreign investors are entering this market through joint ventures, says Manuela Saragosa**

Indonesian telecoms have come a long way over the past two decades. Business executives in Jakarta note that in the 1970s it was quicker to send a message by courier and wait for the reply than it was to make a call within the city.

Indosat, Indonesia's state-controlled international telecoms company, is now listed in New York and Jakarta along with Telkom, the domestic telecoms company, which also has a listing in London. In addition, foreign telecoms companies have paid billions of dollars to secure a slice of Indonesia's telecoms market.

Indonesia's market is currently tiny – as of mid-1995 there were only about 1.45 lines per 100 inhabitants and no more than 150,000 subscribers to mobile phone systems. The high level of foreign interest reflects the perceived potential of Indonesia's telecoms market.

In a country with 200m people and rising GDP per capita, development of telecommunications is a priority for government. The sector has been the focus of a significant overhaul over the past year. This has involved opening the market up to foreign investors and offering them opportunities to expand local line networks, cellular operations and satellite links.

Private sector interest has been high despite regulatory risks. The government is vague on its future telephone tariff policy and no proposals have been published on how many mobile phone operators will be given licences to operate in the country.

Unusually, Telkom has the legal right to own a stake in all companies offering telecoms services. Indosat meanwhile owns a minority stake in its direct competitor, Satelindo. It is a situation which some industry analysts say will create conflicts of interest as competition between various telecoms service providers intensifies.

Nevertheless the amount of private investment has been substantial particularly for mobile phone services.

Prices for mobile phone handsets are falling as the government progressively reduces import tariffs. This is expected to boost the market's size. Industry participants expect there will be a million subscribers in Indonesia by 2000 and that Global System for Mobile (GSM) operators will account for two thirds of market share.

In February PTT of the Netherlands beat Cable and Wireless of the UK and Australia's Telstra Corp in the contest for a US$304m, or 17.3 per cent, stake in Telkomsel, a GSM operator in which both Telkom and Indosat own shares. That deal followed the striking of partnerships between two other GSM operators, in the first of which Deutsche Telkom's unit DeTeMobil bought a 25 per cent stake in Satelindo for US$586m in April last year.

Satelindo competes with Indosat in offering international call services, although competition is restricted to marketing rather than pricing of calls. The government has decreed that the international long-distance sector will remain a duopoly until the end of 2005.

Satelindo's share of outgoing calls is increasing. Indosat meanwhile faces growing competition from US-based "call back" services. In recognition of the challenge, Indosat last year paid US$20m for a 20 per cent stake in US Global Link, an Iowa-based "call-back" service provider.

In October Nynex Corp of the US joined Japan's Mitsui and the Asian Infrastructure Fund in buying a stake in another GSM operator called Excelcomindo.

Nynex's purchase of the 22 per cent shareholding caused some consternation because the government had initially said that only two companies – Satelindo and Telkomsel – would be given GSM licences.

INDONESIA

Only one other mobile phone operator – Mobisel which operates a national analogue system – has started looking for a foreign strategic investor. Japan's Nissho Iwai has expressed interest in acquiring some of its equity.

Because telephone tariffs are regulated by the government, competition is limited to marketing.

"Right now there's only one pricing plan for air time but in future there will be a much greater need for flexibility," says Mr Carlson Smith, executive adviser to Mobisel. In the meantime, "you can tailor your packages differently to target different market segments". This involves providing a range of payment options.

The government considers that there is no capacity left for additional GSM operators, although it is investigating introducing further cellular operators of PCN or PCS services. "The government has given no indication as to the number of potential licences it may in future award, or their coverage," says Merrill Lynch.

Foreign investment has helped increase the number of fixed lines. Indonesia introduced a novel way of admitting this international capital ahead of Telkom's privatisation last November.

So-called joint-operating schemes were set up. These consist of five consortia, each of which includes at least one international telecoms company, with the task of installing and managing 2m additional lines for the next 15 years in five different regions of the country in revenue-sharing deals with Telkom.

The scheme alleviated the financing burden on Telkom of installing new lines. Other financial benefits for the domestic telecoms carrier included an initial payment from each consortium followed by guaranteed monthly payments throughout the 15-year period.

# Ad hoc approach triumphs

**Another round of liberalisation is needed to sustain growth, reports Ted Bardacke**

At the end of the last decade, the waiting time for a basic telephone line in Bangkok was over eight years. In Thailand's provinces, lines were simply not available. The government ran a mobile network with handsets the size of a brick and prices just as heavy. A lack of telecoms infrastructure threatened to curb economic growth.

Today basic telephone lines are being installed faster than customers are subscribing to them. More than 2 per cent of the population – nearly 10 per cent in Bangkok – owns a mobile phone and as prices of handsets drop, demand should remain steady. With spending on telecoms infrastructure for 1992-1996 increasing to $4.5bn, a 783 per cent rise on the previous five-year period, telecoms infrastructure is not just keeping up with economic growth, but driving it as well.

Thailand engineered this transformation without any grand scheme. Private investors were brought in on an ad hoc basis to fill certain needs quickly and cheaply. Concessions and contracts were amended midway to reflect changing technologies, market conditions and governments.

The industry was neither privatised nor liberalised, although there have been elements of both.

The result, in addition to good telecoms infrastructure, is a mess of exclusive concessions and government operator-regulators who at times compete with their own joint-venture partners. Only now is the government getting around to ratifying a telecoms master plan, complete with an impartial regulatory board to oversee further changes to the industry.

To sort out this mess while at the same time ensuring that Thailand reaches a high level of teledensity (number of lines or users per 100 people) will require three things, analysts say:

- further liberalisation;
- government concessions to become joint-ventures;
- the Telephone Organisation of Thailand (TOT), which operates local phones and domestic long distance, and the Communications Authority of Thailand (CAT), which has a monopoly on international services, to be stripped of their regulatory function and be partially privatised.

Nevertheless, "the existing

THAILAND

companies have such a head start and strong base to work with that they are unlikely to be seriously challenged any time soon," says Mr Michael Millar, a telecoms analyst with Crosby Securities. Opportunities for foreign participation will remain limited to equipment supply, consulting work, becoming a minority partner in a joint-venture which requires outside technical know-how and buying shares in publicly-listed companies.

In the fixed line sector, three companies dominate:

- the TOT, with about 2.5m lines connected and the go-ahead to install 800,000 more over the next couple of years;
- TelecomAsia (TA), a joint venture between CP Group of Thailand and Nynex of the US, with a concession to install and operate 2.6m lines in the Bangkok area;
- Thai Telephone and Telecommunications (TT&T), a joint venture between Loxley and Jasmine International of Thailand and NTT of Japan, with a concession to install and operate 1.5m lines in the country's provinces.

It is expected that concessions to install and operate 6m more lines by 2001 will be awarded within the next year. How these contracts get carved up among TA, TT&T and mobile operators Shinawatra and United Communications (Ucom) and other potential new entrants is currently the subject of intense negotiations, where political favouritism plays as big a role as operational and practical considerations. Several important politicians are closely connected to domestic telecoms companies.

By 2001 Bangkok should have a teledensity of over 60 per cent, about the current levels of the US and just trailing world leader Hong Kong. Teledensity in the provinces is expected to be about 12 per cent and the country as a whole 20 per cent.

This may be too much. Demand in 2001 is only expected to be 11.4 per cent – 35.4 per cent in Bangkok and 6.7 per cent in Bangkok – according to BZW Securities. The saturation point may have been reached before then. At the end of 1995, TA had installed 1.4m lines but only 725,000 had been ordered by customers and connected. Similarly, TT&T had installed 900,000 lines but only connected 480,000.

# Red tape snags progress

**Hanoi's ambivalent view of telecoms is curbing their growth, reports Jeremy Grant**

When senior Vietnamese officials gathered in Ho Chi Minh City in February for the inauguration of the communist-run country's first optical fibre link with the outside world, it cannot have escaped their attention that the past decade has seen a revolution in the country's frail telecommunications network.

In 1986 Hanoi's only telephone links abroad were nine crackling lines to Moscow, then Vietnam's main benefactor. But with the fibre optic link, Vietnam can comfortably manage 22,000 simultaneous calls to almost anywhere in the world. In Ho Chi Minh City, the commercial capital, mobile phones are essential for the increasing numbers of business executives flourishing under market-oriented reforms. In Hanoi, the humble pager is already old hat.

These images may impress visitors but they mask problems that have frustrated the many foreign operators that are keen for a share of what could be one of south-east Asia's largest markets for international call revenue.

One indicator of the pace of growth in Vietnamese telecommunications is the number of mobile phone subscribers. In 1994, there were 3,500 nationwide, 70 per cent of them Vietnamese, industry estimates show. A year later the figure had jumped to 15,000 and this year is likely to rise to 40,000 subscribers.

Perhaps the biggest problem is that despite having made positive statements about allowing foreigners into the market, Hanoi has not yet said outright to what extent it welcomes foreign participation on the operations side of the business, where the real money is to be made. Its hesitancy is partly because the government was last year distracted by major re-organisation within the industry. But the real issue is politics, and, as so often in telecoms, national security.

Last year, a local English-language newspaper leaked news that the operating monopoly held by the Vietnam Posts and Telecommunications (VNPT) would be broken with the award of an operating licence to Sigelco, a ministry of defence subsidiary. Sigelco would be allowed to join with foreigners in setting up and operating the rival network in what would be the country's first move towards market deregulation.

However a week later, the office of the government printed a different story in the same paper, denying that Sigelco would not be allowed to compete with VNPT and that the intention was merely to allow the ministry of defence to enter into equipment manufacturing ventures, of which there are already six with foreign involvement.

Since then, it has emerged that Sigelco did get the go-ahead for a second network and, renamed as the Military Electronic Telecommunications Co (METC), has been in far-reaching talks separately with US West, Motorola, South Western Bell and a team comprising US investment bank Goldman Sachs and Jasmine International of Thailand about setting it up.

VIETNAM

A surprise third Vietnamese operator known as Saigon Postel emerged in December, and is understood to have an operating licence as well as the necessary frequency allocations for a third network, including mobile phones and paging systems.

Foreign industry experts took the episode as a sign of the extent to which telecommunications, like other sectors in Vietnam, has fallen foul of inter-ministerial rivalry or, worse, competing interests at an even higher level.

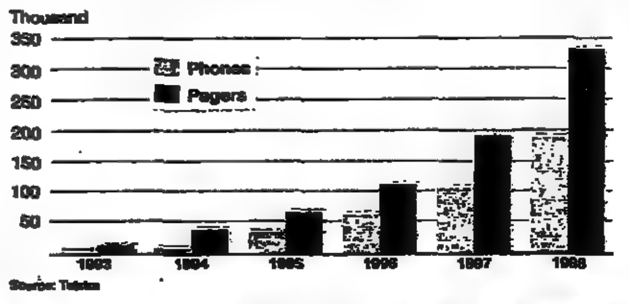
Although the fact that METC is talking to foreign companies indicates at least some behind-the-scenes commitment to a looser market, the lack of a clear statement from the Vietnamese government and communist party on the issue has caused impatience and confusion.

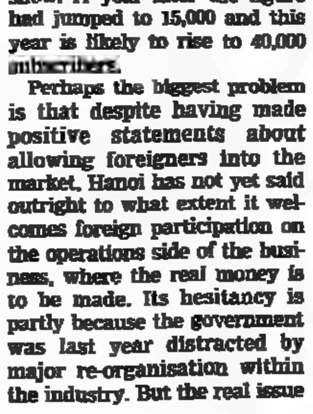
In the early 1990s, Hanoi said it would allow foreigners to operate mobile phone networks in Ho Chi Minh City on a trial basis. Singapore Telecom took advantage of the offer in 1992 by launching Callink, an analogue mobile phone network, in the hope of sewing up a firm contract shortly afterwards. The company is still waiting for a deal, four years on.

Last year, Korea Telecom was reported in the local press as having secured a contract to install and operate land lines in the northern port city of Haiphong. However it is understood that the deal has not been concluded.

Four of the world's largest competitors – Telstra of Australia, France Telecom, NTT of Japan and Britain's Cable & Wireless – have been waiting almost two years for contracts to install and operate lines in the two main cities.

France Telecom and Telstra plan to dig up roads in Ho Chi Minh City in order to install about 800,000 landlines, splitting the job equally between them. Telstra has said its share would involve an investment of about $300m. In Hanoi NTT is to install 200,000 lines, with Cable & Wireless understood to be taking care of a similar amount. All four would be looking to operate the systems, cashing in on increasing international and inter-provincial call revenue.





A political poster behind a telephone box in Hanoi. Party wrangles are impeding competition Sarah Murray

# The fees are levied in lines

**Providing a rural service is the price of entering this market, reports Edward Luce**

The Philippines' telecoms market is undergoing the most rapid expansion in its history.

Under the liberalisation of the telecoms sector two years ago eight new international gateway and mobile phone operators are competing with the former monopoly, the Philippine Long Distance Telephone Company (PLDT), for a market which is set to quintuple by the turn of the century.

The National Telecommunications Commission (NTC), which regulates the sector, predicts that teledensity in the Philippines will reach 10 lines per 100 people by 1998 compared with 2.1 in 1995 in an investment drive totalling $9.3bn. This year alone some 3.6m land lines will be installed doubling the country's telephone penetration to 5.2 per cent.

Many of the country's Asian neighbours have inquired how the Philippines could have brought about this transformation so quickly. The "Philippine model" is also being held up as a good formula for getting the private sector to fulfil the government's social objectives without a public subsidy.

"It makes complete sense in an emerging market which is projected to grow as rapidly as the Philippines to get the private sector to do the government's work for it," said Mr Simeon Kintanar, head of the NTC. "New licensees can set down millions of landlines in poor and rural areas but still make a healthy profit from their international and mobile operations."

Under the formula, companies which are awarded international gateway licences must install 300,000 landlines in their licence zone, while mobile operators, whose market has doubled in the last 12 months to 0.7 cellular phones per 1,000 people, must lay down 400,000 lines. The operators are required to install the phones within three years or their licences will be revoked. In addition they are required to place 20 per cent of their capital costs in an escrow account as a signal of the genuineness of their intentions.

PHILIPPINES

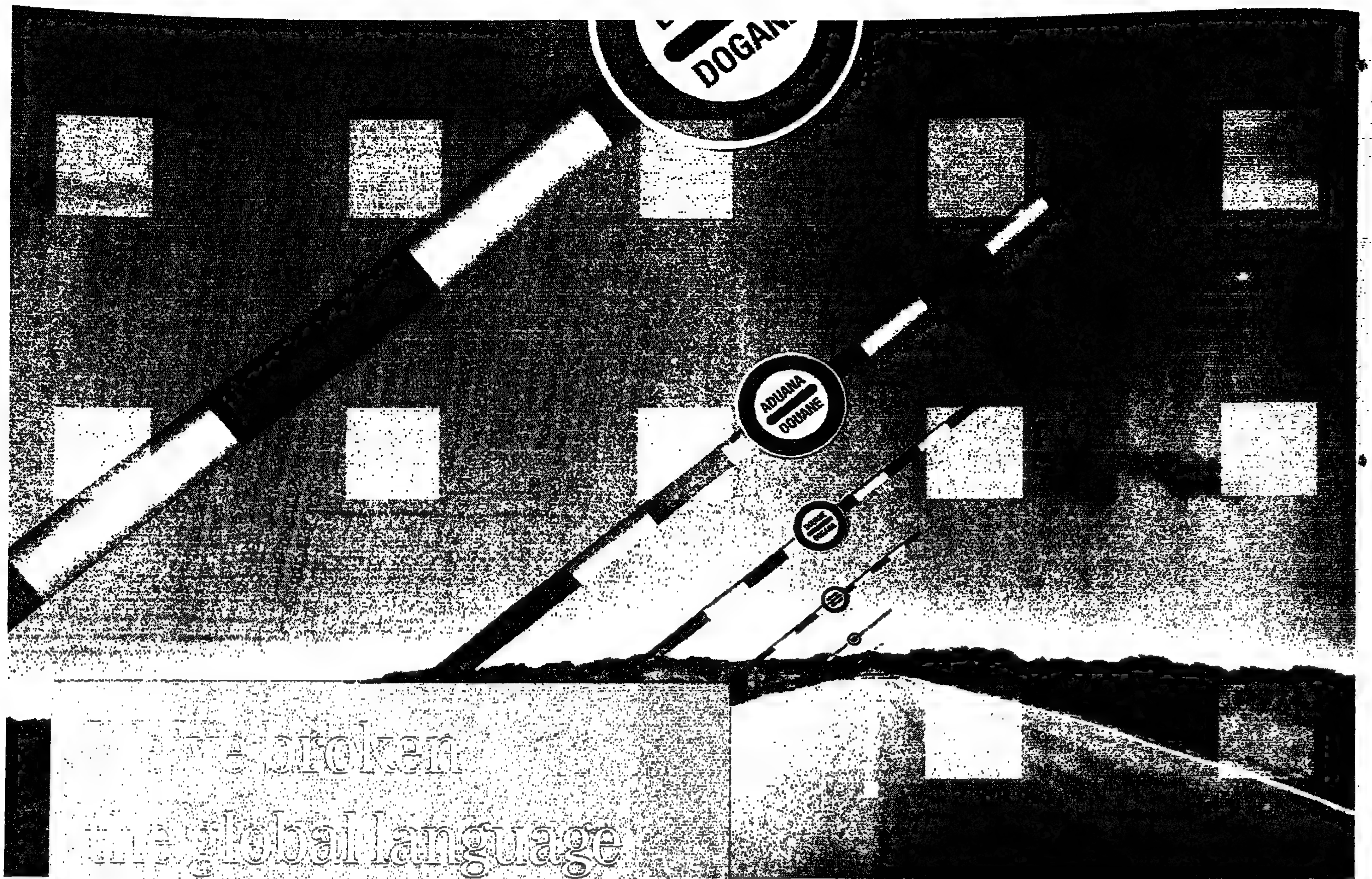
So far so good. But several of the new licensees, among them foreign joint partners of local companies such as Shinawatra of Thailand, Singapore Telecom, NTT of Japan and Cable & Wireless of the UK, have complained that PLDT has been obstructing access to its national interconnect system.

PLDT's competitors also complain that the former state-owned company has an unfair advantage because it can threaten to disconnect customers' phones if they are late in paying bills. The new licensees plan to build a $150m alternative telephone backbone which would give them independence from PLDT. But in the meantime they will have to rely upon government regulated interconnection agreements with PLDT to access the former monopolist's system.

Likewise PLDT, which retains about 82 per cent of the lucrative market for international calls but is expected to see its share fall to 50 per cent by 2000, has complained that its rivals are not fulfilling their landline obligations on time. The privatised national company, which is listed on the New York stock exchange, has accused the government of turning a blind eye to alleged infringements of licensing agreements in order to accelerate competition.

"We are doing our best to ensure that there is a genuinely level playing field," said Mr Kintanar. "If the worst comes to the worst we can revoke licences but we doubt it will ever come to that. We suspect that both PLDT and the new licensees will continue to have problems with each other but that is only to be expected in a newly liberalised market."

Analysts point out that prior to liberalisation the country had a huge backlog of unmet demand running into millions of frustrated applicants. Meeting this backlog should ensure sufficient revenue growth to satisfy most of the players. Industry specialists also point out that accelerating economic growth rates over the next few years will ensure that there will continue to be a hefty backlog by 2000.

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**Our connections move the world.**

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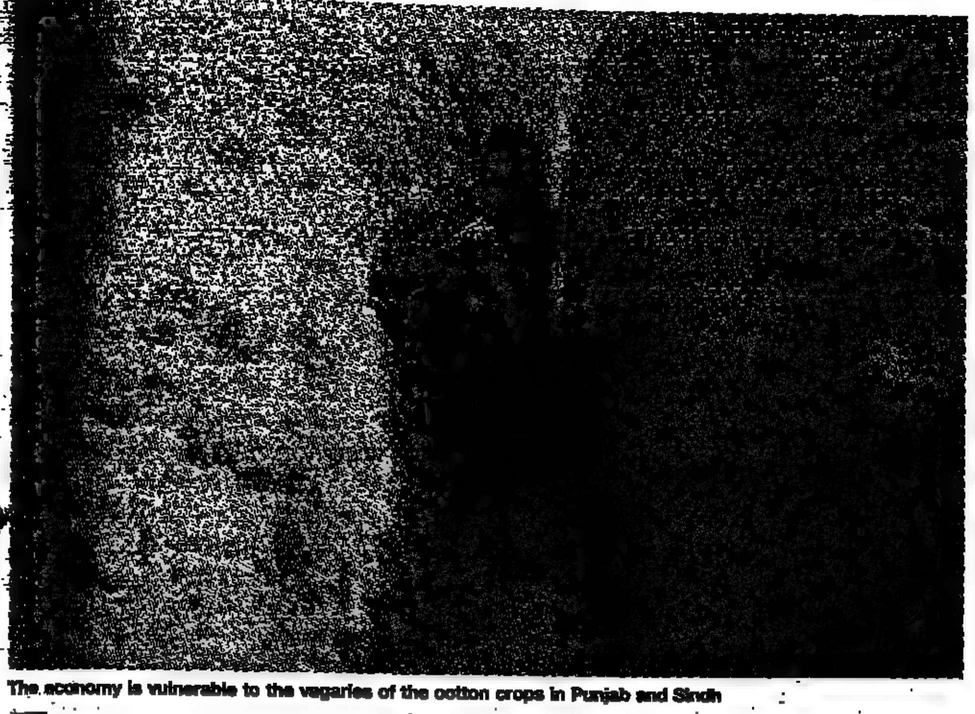
# PAKISTAN



The economy is vulnerable to the vagaries of the cotton crops in Punjab and Sindh

## Improving, but could do better

**Success in creating a lively democracy needs to be accompanied by continuing economic reform and by more vigorous measures to deal with crime, poverty and illiteracy, writes Victor Mallet**

As Pakistan approaches the 50th anniversary of its violent birth in the partition from India in 1947, its leaders will be looking for national achievements to celebrate. They will find some economic and political successes – but not as many as Pakistanis would like.

Created as a homeland for the Moslems of the British Raj, Pakistan has been a lively democracy for the past eight years; it has a free press that does not hesitate to criticise the government of the day; and Benazir Bhutto, the prime minister, is pursuing the economic and financial liberalisation programme begun by Mohammad Nawaz Sharif, her predecessor and main political rival. Indeed, the economy is growing at a respectable pace, with gross domestic product expected to rise 6 per cent in real terms this year.

But the list of the challenges facing Pakistan is longer than the catalogue of good news. The continuing confrontation with India, a hostility which still erupts in border skirmishes over the disputed territory of Kashmir, ensures that a third of the annual budget is spent on defence and that the army has an undue influence in politics.

The country's secret nuclear weapons programme – aimed at deterring India – is not only likely to have been expensive. It has also alienated the US, which was a powerful ally of Pakistan during the cold war and the Soviet occupation of neighbouring Afghanistan.

In Karachi, Pakistan's commercial and financial centre, gunmen bitter about the authorities' treatment of the *mohajirs*, the Urdu-speakers who fled from what is now India at partition, have been engaged in a campaign to kill members of the security forces and disrupt the life and business of the city. The government has responded in kind, arresting and killing many of the gunmen, a strategy which has – for the time being – brought the problem under control.

But, elsewhere in the country, crime has increased, encouraged by the easy availability of weapons and the rise of drug-trafficking in the turbulent Afghan border region.

Pakistan's efforts to emulate the successful, export-oriented economies of south-east Asia are further hampered by its exceptionally low literacy rate of about 30 per cent, high population growth of more than 3 per cent a year, the exclusion of women from many formal jobs, a low savings rate and corruption which is said to be as bad as it was in the days of martial law.

The economy remains heavily dependent on agriculture, and is vulnerable to the vagaries of the cotton crops in Punjab and Sindh that supply the textile factories of Lahore, Karachi and elsewhere.

As an old-fashioned, Islamic society, Pakistan is run largely by the landowners – known locally as "feudals" – who occupy most of the seats in parliament.

They are sophisticated consumers whose favourite status symbols include big, black Toyota Land Cruisers and maids from the Philippines (who cost more than Pakistani servants).

But many poor Pakistanis, including children, still find themselves toiling as bonded labourers in fields and carpet factories. The social action programme, aimed at improving education, sanitation and population control, has made a start in tackling the problems of the poor, but inevitably has a long way to go.

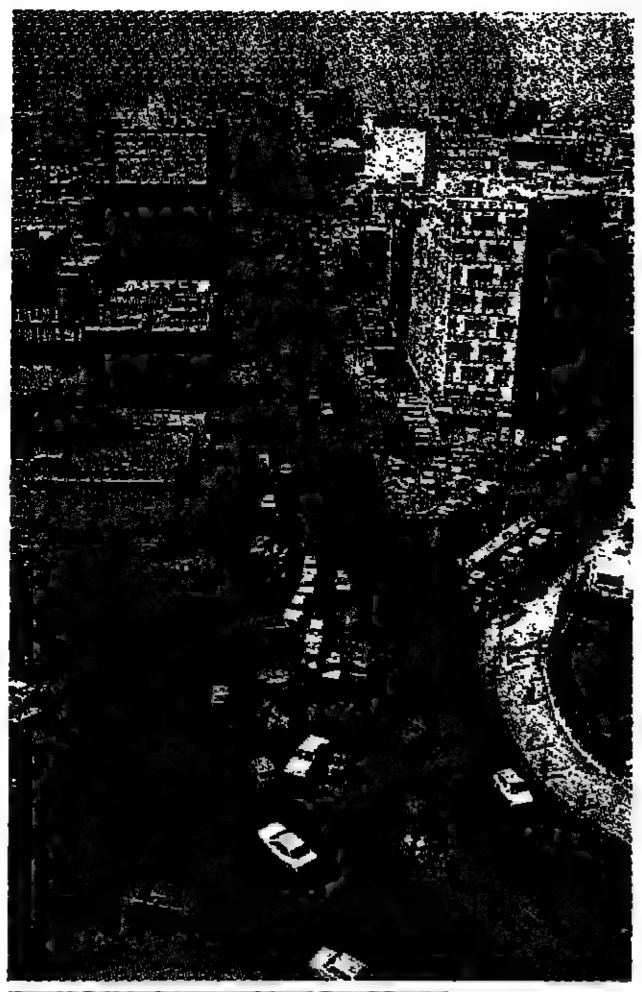
Ms Bhutto, the Oxford-educated prime minister and daughter of Zulfikar Ali Bhutto, the former leader executed by military dictator Gen Zia ul-Haq in 1979, was born into the class of wealthy landowners, as was her businessman husband, Asif Ali Zardari.

In this, her second time as prime minister at the head of the Pakistan People's Party founded by her father, she has won some credit for her efforts to repair relations with the US, although critics say the attempt to market Pakistan as a moderate Islamic bulwark against fundamentalism merely serves to antagonise neighbouring Iran and extremists in her own country.

After earlier disputes with both the Pakistani business community and the International Monetary Fund, her government has also earned grudging support for its tentative progress down the difficult path of fiscal discipline.

According to V.A. Jafarey, her economic adviser, the typical Pakistani businessman will rarely mention such benefits of liberalisation as the lifting of foreign exchange controls. "He'll only talk about the things that hurt him," complains Mr Jafarey.

"The economic reform which the government has undertaken has been on a very wide scale. It has been rapid and there have been some genuine teething problems. But by and large the process has been welcomed and accepted, and has the support of both major parties."



Karachi: Pakistan's commercial and financial centre

Even her enemies accept that Ms Bhutto has been clever in her recent handling of Pakistan's chaotic style of patronage politics. Opponents in provincial governments have been moved aside; the justice system has been mobilised to hear dozens of accusations of financial irregularities levelled at members of Mr Sharif's opposition Moslem League (they did the same to her when they were in power); and allies have been manoeuvred into influential positions.

Assuming the army remains contentedly in the background, and assuming the economy does not suffer a sudden reversal, Ms Bhutto is as secure as any Pakistani leader can expect to be in a region rife with ethnic and religious tensions.

Even some of those who have reservations about the government's merits are keen – for the sake of Pakistan's stability – that the administration should serve its full term until the next election due in 1998. "People are fed up with the governments coming in and leaving," says Asma Jehangir, a lawyer and human rights activist in Lahore. "They want her to complete her term and a democratic system to continue. And they want no part in the demonisation that goes on between Nawaz Sharif and Benazir."

Although Ms Bhutto has skilfully played the existing political system to consolidate her position, neither she nor her predecessors have been able to lay out clear economic and social goals for the long term or to move Pakistan towards a more stable form of democracy.

A common complaint of business leaders and ordinary Pakistanis is that almost everything in the country is "politicised", from the appointment of junior functionaries to the prosecution of those suspected of corruption. The accused, in other words, are often in the dock because they are opponents of the powers that be rather than because anyone is genuinely shocked by their crimes.

"If accountability was on a more balanced, independent basis, it would carry some credibility and perhaps reduce corruption," says Akram Zaki, former secretary-general of the Pakistan Foreign Office and a supporter of Mr Sharif.

Most law-making is by presidential ordinance (there were 127 last year) rather than by act of parliament. "We haven't matured our political system," says Sartaj Aziz, a former finance minister and secretary general of Mr Sharif's Moslem League. "Our institutions have become weaker."

Widespread support for the half-declared political ambitions of Imran Khan, the cricketing hero and philanthropist, is therefore regarded more as cry of discontent with existing politicians than as a mandate for Mr Khan's as yet unknown political programme.

One of the big challenges facing this and future Pakistani governments is the need to adjust the political system so that it gives more weight to the views of the country's growing number of city-dwellers.

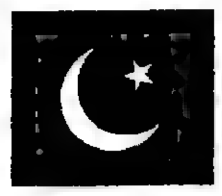
This grievance about representation is one of the causes of the violence in Karachi, where the urban *mohajirs* say they suffer discrimination at the hands of the local Sindhis.

Urban industries, meanwhile, say they are heavily burdened with taxes that make it difficult for them to expand and invest, while wealthy agriculturalists pay almost no tax at all.

Fettered by the agricultural lobby in parliament, the government has made only a modest start on bringing the feudal landlords into the tax net. Last year a mere Rs2.5m was raised in this way.

"Economic and political stability are both still taking root," says one Pakistani banker in Karachi. "We should keep going ahead. But it will not be easy. It will require a lot of political will, because some of the decisions will be politically expensive."

### IN THIS SURVEY





Editorial production: Roy Terry

■ **The economy:** by Victor Mallet

# Relief rather than euphoria

## Good crops of grain and cotton have helped boost estimates of growth to 6 per cent

The Pakistani economy is expected to grow by about 6 per cent this year in real terms – the best performance for four years – but business people and government officials are smiling only cautiously, and their mood is one of relief rather than euphoria.

That is because the economic reforms which began in earnest after the return of democracy in the late 1980s still have a long way to go before Pakistan can claim to have a dynamic and fully liberalised economy.

There are few significant differences between the economic policies of Benazir Bhutto's present government and those of her predecessor, Nawaz Sharif. Although each side has accused the other of corruption and mismanagement, both are in favour of privatisation and both have sought to implement free market policies. But this year's promising growth estimates, and an expected fall of inflation, perhaps to 10 per cent, have as much to do with good crops of grain and cotton – on which Pakistan remains heavily dependent – as anything else.

"Unfortunately not all of the good news is due to good policies," says one economist in the capital Islamabad. "Some of it is due to good weather and the fact that the agricultural pests decided to nest somewhere else this year."

The problem for Pakistan's policy makers as they seek to keep the economy growing is that their room for manoeuvre is limited by the twin burden of a current account deficit and a severe budget deficit.

Foreign earnings remain weak for several reasons. Local textile manufacturers, which until two years ago were protected with subsidised cotton supplies, have been slow to invest in the production of garments and other value-added products for export. Carpet exports have been hit by protests in the west against the widespread use of child labour in Pakistan and the region.

Foreign investors, meanwhile, have been welcomed into the country but have tended to put their money into infrastructure projects such as power stations, which consume rather than earn foreign exchange. They have also invested in import substitution industries protected by tariff barriers, such as vehicle assembly and chemicals.

What is missing from the recipe so successfully pursued in countries such as Thailand and Indonesia in south-east Asia is an inflow of foreign funds for export industries. Among the obstacles to such investment are the low literacy rate of the country's workers; the political violence in Karachi, the main business centre; infrastructural problems, including congestion at the Karachi port and (for the time being) electricity shortages; and the relative scarcity of joint venture partners with an international outlook.

To make matters worse, remittances from Pakistani workers in the Gulf, a useful source of foreign currency in the 1970s and 1980s, have started to decline. And imports have continued to rise, leaving the government with an uncomfortably small cushion of foreign reserves.

Nevertheless, the situation has improved since last June, when the International Monetary Fund suspended an enhanced structural adjustment facility (Esaf), a loan arrangement at concessional

> Foreign investors have been welcomed into the country

rates of interest, because of Pakistan's failure to meet agreed targets on its domestic budget. With a widening trade deficit and a run on its foreign exchange reserves, the government was forced in October to introduce a stabilisation plan, which included a 7 per cent devaluation of the rupee and a special 10 per cent import tariff that is still in place.

According to V.A. Jafarey, the prime minister's adviser on finance, there are signs of a recovery in exports, and import growth is slowing. "The brake is beginning to work," he says.

The dispute with the IMF highlighted Pakistan's thorniest economic problem – a budget deficit caused by a mixture of overspending and poor tax collection. "Breaking that understanding with the IMF cost this country enormously, both in terms of cash and in terms of confidence," says one foreign observer in Islamabad. "The country paid a terrible price for not going through with its commitments. And now they have to do almost exactly what they didn't do in June last year and they still don't have an Esaf." Instead, Pakistan has a more expensive $600m standby loan agreed with the IMF in November, which could be followed by a renegotiated Esaf if the government sticks to the targets and announces an acceptably tight budget in June for the financial year starting on July 1.

Not only foreign economists but also Pakistani businessmen and bankers in Karachi say this year's budget will be a crucial test of the credibility of the government's economic policies, especially since the central bank is restricting the amount of bank credit available to the private sector in an attempt to curb inflation.

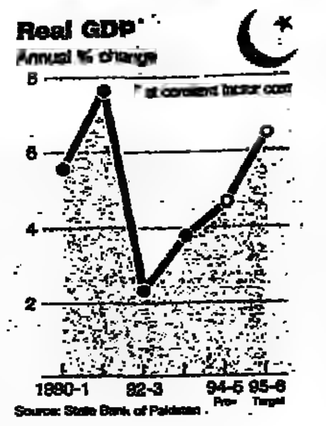
"The irony would be if they deprive the private sector of money and still fail to bring down the budget deficit," says one banker. Already the government has borrowed Rs60bn from the banking system, double the IMF target, although it may be able to "juggle" the figures as it has in the past to obey the letter – but not the spirit – of IMF criteria.

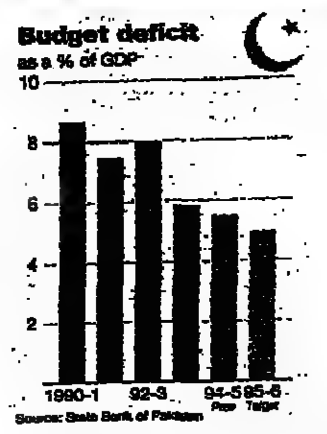
A chronic problem faced by any Pakistani administration is that military expenditure and debt servicing together account for two thirds of budget spending, leaving far too little for other areas such as education. Of the annual foreign aid requirements of about $2.5bn, $1.6bn goes straight back into servicing the existing debts to donors.

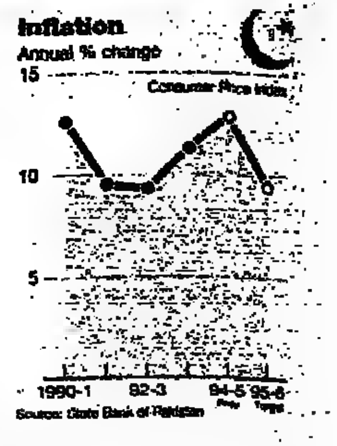
Hence the IMF's attempts to persuade the government to use proceeds from privatisation to retire some of its foreign debt. The government, meanwhile, is considering issuing a second eurobond – to raise $100m this time, compared with the previous issue of $150m – to broaden its sources of finance and move away from short-term commercial bank borrowing.

Both debt servicing and military spending are regarded as relatively inflexible budget items, partly because the armed forces remain powerful and insist they need to be strong to counter security threats from India next door. With social spending already low, the obvious solution is to concentrate on the revenue side and widen the tax net.

But this is difficult, too, particularly when easily collected import tariffs are being reduced in line with the liberalisation of world trade and attempts to improve Pakistan's international competitiveness.




Hitherto the government has piled tariffs, excise duties and taxes on manufacturing industries – particularly the large and medium-sized companies in Karachi – because such companies are too visible to escape the attentions of the Central Board of Revenue and are reliable taxpayers. The authorities have barely begun to tax the wealthy landowners who could provide plenty of additional revenue, largely because these "feudals" are powerful in both main political parties; indeed, many of them are members of parliament. The system, furthermore, is open to abuse, since town dwellers can buy a plot of land in the countryside and claim that their income is exempt from tax because it is "agricultural".

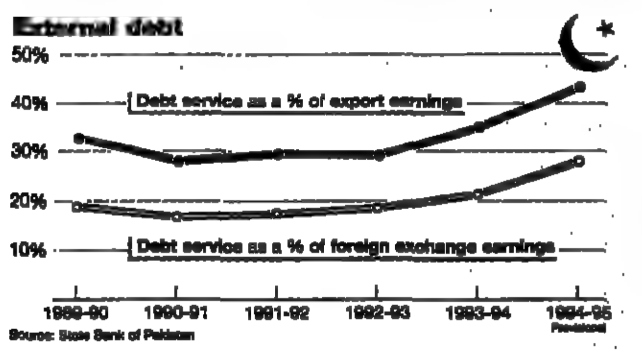
Any correction of this particular weakness in the Pakistani tax system is likely to be gradual at best. Instead, the government's next priority is to widen the narrowly-based general sales tax so that it embraces the modern retail sector and becomes a full value-added tax; as well as increasing revenue immediately, the widening of this tax should also improve tax records by allowing inspectors to cross-reference the returns of one tax payer against another, and thus reduce tax evasion.

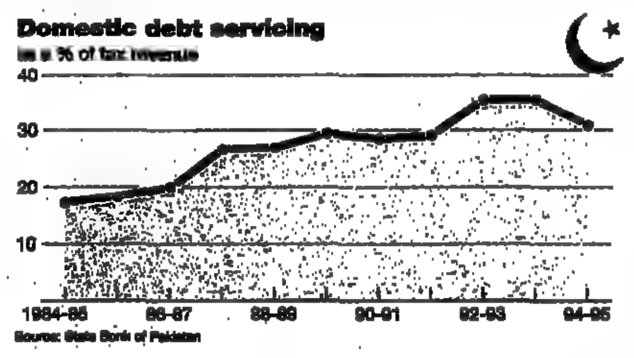
One of the peculiarities of Pakistan's tax system is the huge number of exemptions granted to those powerful enough to exert political pressure. Among the recommendations made recently by a committee of business executives appointed by the prime minister to look into "resource mobilisation" was that all exemptions should be withdrawn, a move which they said would save the government Rs115bn a year – equivalent to nearly a third of the total budget; in exchange they suggested lower taxes, which would cost some Rs72bn but still leave the government a considerable net benefit.

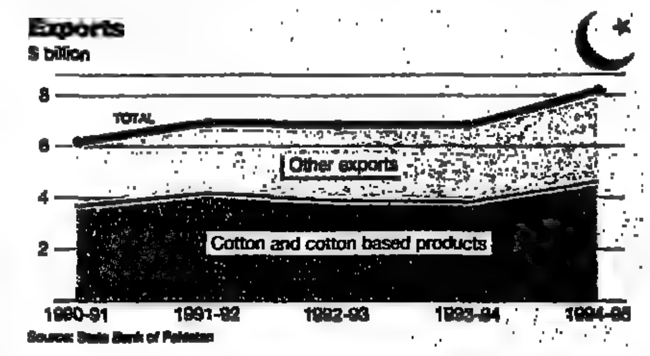
The formation of the committee was one result of a warming in the previously frosty relations between the business community and the Bhutto government. Mr Sharif, the previous prime minister, is a businessman himself and has been regarded as more "business-friendly", a feeling which intensified when Ms Bhutto's administration took to identifying businessmen as allies of Mr Sharif, harassing some of them and refusing them permission to leave the country.

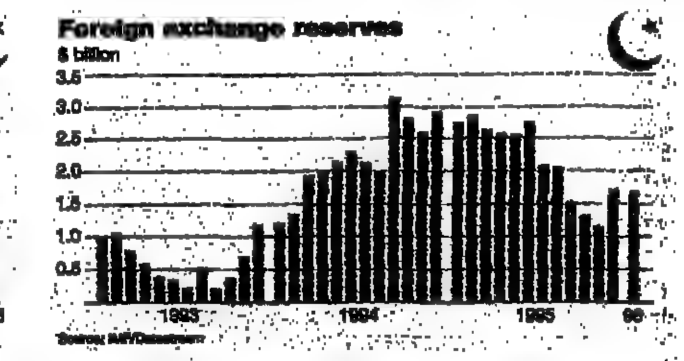
Now that relations are better, the prime minister has allowed even "opposition" business people to accompany her on her frequent diplomatic ventures abroad and seems more inclined to listen to their pleas for economic reforms. This change of attitude, together with the improved outlook for economic growth this year, appears to have conquered the widespread pessimism of a year ago.

"The situation was bleak a few months ago," says Tariq Saigol, president of the Lahore Chamber of Commerce and Industry. "The picture doesn't look rosy right now but it's not as bad as I expected... But as to whether we really are going to become a dynamic Asian economy, I have my doubts."




■ **Privatisation:** by Jeremy Grant

# Barring hitches, the worst is over

## Proceeds from the sales total $1bn and the government hopes to raise another $2bn

When it comes to privatisation in Pakistan, the biggest word is "if".

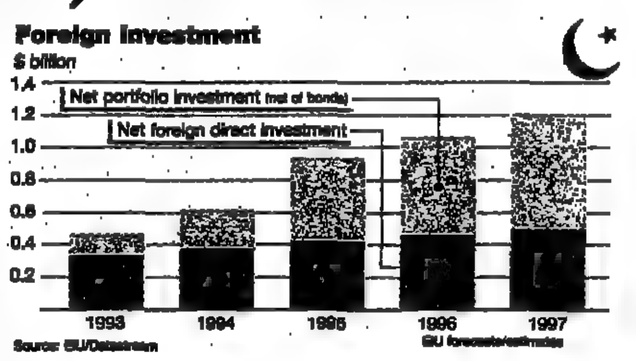
The government is still smarting after the fallout from last year's bungled sale of a stake in Pakistan Telecommunications Co (PTC) and controversy surrounding February's divestment of United Bank Ltd (UBL).

But analysts say the worst may be over and this year could see investor confidence restored, if there are no further hitches and particularly if the sale of a strategic 26 per cent of PTC goes well.

"Considering what the country had to sell, it [privatisation] hasn't gone that badly," says one securities analyst with a Karachi firm.

Privatisation was originally introduced by the previous government of Nawaz Sharif in 1991, and has been pursued by the present administration of Benazir Bhutto which took power in 1993.

Pakistan is under enormous pressure to raise cash fast to retire as much of its $20bn foreign debt as possible. Islamabad is being pressed by the World Bank and the International Monetary Fund (IMF) and has almost no recourse to foreign exchange reserves, which are perilously low at around $1.5bn.




More urgently, Pakistan faces expensive repayments on a $600m standby credit granted by the IMF last November after Islamabad's failure to meet macro-economic targets under a structural adjustment programme.

So far, principal sell-offs include three banks, eight cement plants and 12 per cent of PTC.

In most cases, the government has sold off a strategic 26 per cent, giving investors management control, with a further 25 per cent to be floated on the Karachi Stock Exchange (KSE) later.

Proceeds from the sales are about $1bn and the administration hopes to have raised $2bn more by the end of the year, despite privatisation's chequered history.

An attempt in January to sell United Bank Ltd (UBL) initially flopped after the two main bidders failed to submit formal offers on time. The bank was eventually snapped up cheaply by the Basharahil Group of Saudi Arabia amid accusations from opposition politicians that the government had mismanaged the sale.

Confidence in privatisation was already at a low ebb last year after the government's mismanaged sale of a tranche of PTC to portfolio investors. Buoyed by the successful sale of 1 per cent to domestic investors, Islamabad sold a further 11 per cent, raising $800m.

But when investors found that the sale documents had overstated the number of telephone lines in operation, the price of its global depositary receipts slumped. Critics said that in its haste to raise money, the official Privatisation Commission had not allowed sufficient time for due diligence.

Although analysts acknowledge the economic imperative of fast-track privatisation, they point out that the speed with which it is being carried out is one of its weaknesses.

If Islamabad were to allow time for state companies to rationalise their operations, they argue, this would make them more attractive to investors and increase the sums raised.

"In many ways they're trying to rush things and not necessarily getting the results they want. A little bit of thought and preparation would get them in the sort of shape they need to be in," said one London-based banker who follows Pakistan.

Indeed, lack of time for due diligence was behind the problems with PTC and with UBL. The Privatisation Commission refused to allow a second potential buyer – Faysal Islamic Bank of Bahrain – more time to check the state of UBL's financial health.

What is worse is that the UBL case has not helped on the public relations front. It has played into the hands of opposition politicians and some newspaper editors, who have taken to accusing the government of selling state companies at throwaway prices, after plundering their assets for expensive perks. "Ruling elites kill off UBL," ran one headline in a recent edition of the weekly Friday Times.

Critical headlines aside, the government of Benazir Bhutto has scored some valuable political points by privatising the

Continued on page 3

### Privatisation: a snapshot

**Privatised:**
Muslim Commercial Bank
Allied Bank
Pakistan Telecommunications Corp (12 per cent)
United Bank Ltd (UBL)
Eight cement plants
Nine vehicle manufacturing units

**Planned:**
Habib Bank
Bankers' Equity Ltd
Sui Southern and Sui Northern (gas companies)
Karachi Electric Supply Co (KESC)
Kot Addu power plant
Pakistan Telecommunications Corp (26 per cent)
Pak Saudi Fertiliser

Proceeds from privatisation (1988-95): Rs34.5bn
Amount invested in social schemes: Rs16bn
Debt retirement: Rs6bn (including proceeds from PTC sale)

Source: Senate Standing Committee and FT research



PROFILE Muhammad Yaqub

# A thorn in the side

In a country where successive administrations have become accustomed to spending beyond their means and public sector banks have often been obliged to make loans for dubious political purposes, a strong central bank can be a thorn in the side of government.

Muhammad Yaqub, the governor of the State Bank of Pakistan, the central bank, continues to irritate many government officials and earn the admiration of his supporters for exactly that reason.

The governor, who has earned a reputation for being tough-talking, hard-headed and honest, has upset many bankers and official planners. However, his work is also regarded in international financial circles as crucial for the success of Pakistan's financial and economic reforms, especially if the country is to break away from its habit of financial indiscipline.

Mr Yaqub, a former International Monetary Fund economist, has turned around the central bank in more ways than one. He has revamped the bank's inspection and research departments, as a step towards improving its professional abilities for monitoring banks and advising the government on economic decisions.

The central bank has issued warnings to commercial banks and sometimes even penalised them for deviating from central bank regulations. The governments in Pakistan's four provinces, as well as the federal government, now realise that they cannot borrow unlimited amounts of money from the domestic banking system, far in excess of budget and of targets agreed with the IMF, without facing objections from the central bank. This is in sharp contrast to earlier times when excessive borrowings were quietly tolerated.

The changes under Mr Yaqub's leadership are the result of a decision in 1993 by the interim government of Moeen Qureshi to make the bank autonomous so that it acts independently of the influence of the finance ministry in Islamabad. Mr Yaqub has no qualms about the change. "I have absolutely no regrets on what I have done and what we have achieved," he says. "I think there is a general recognition, and this is shared even by those who may be critics of mine, that the state bank during the last two and a half years has increasingly played its rightful role, a role that it should have played always."

Still, Mr Yaqub faces a difficult challenge. He came to office after Pakistan began opening up the country's banking business to the private sector, and the pitiful state of debt-ridden and inefficient public sector banks finally became public knowledge.

In 1994, Pakistan's financial community was shaken by the Mehran Bank scandal. The bank's chief executive was convicted of fraud and jailed last year. The scandal was a setback for the image of the banking system, and many bankers acknowledged that it hindered the efforts of some of the new private banks to attract new clients.

Muhammad Yaqub: tough-talking, hard-headed and honest

But Mr Yaqub's toughest task has probably been that of making the public and private sector come to terms with a central bank that was capable of intervening in important decisions. He describes the transition: "The banking system, which was basically a nationalised system [government-owned], felt that for all practical purposes, they were accountable to the government and not to the State Bank.

"The business community had this perception that 'if there's a credit problem we have to go to the government, it's there that they will move and change it'. Government itself gradually eroded whatever authority there was of this institution [the central bank]."

While the central bank's work is appreciated by international financiers, Mr Yaqub's own future is not entirely clear. His term is due to end this year, but so far he has not said if he wants to stay on – and the government has not said whether he will be asked to do the job for another three years.

There are advantages in keeping on such a tough governor. Politicians can let him take most of the flak for unpopular decisions, especially those related to strict limits on new bank loans and on credit for vote-winning development schemes.

Pakistan's banking system is still reeling under the pressure of the infamous yellow cab scheme of the early 1990s, when billions of rupees were given out under the government of Nawaz Sharif, the former prime minister, to help unemployed youths buy new taxis. A large number of the borrowers have defaulted.

Some financial experts in the private sector give credit to Mr Yaqub for taking a strong line against such high risk schemes, including a "green tractor" plan which was launched two years ago, but which has now been scaled down.

Despite Mr Yaqub's defiant image, he says that his work could not have been done without the backing of the country's leaders, including President Farooq Leghari and Benazir Bhutto, the prime minister.

Looking back at his years in office, Mr Yaqub believes that he has set the tone for the central bank to emerge as an important influence in crucial economic decisions. He says: "We have increased the awareness of financial discipline and I think there has been increased emphasis on that."

Farhan Bokhari

# The worst is over

Continued from page 2

banks. This has helped cut politically inspired lending and instilled an unprecedented degree of commerciality into the banking sector.

"I think people draw a distinction between financial services privatisation and other privatisation," says Patrick Aylmer, a director at NatWest Capital Markets.

Ms Bhutto has also won praise for moving to neutralise a potential threat from the unions, which are convinced that widespread redundancies will inevitably accompany privatisation.

To allay those fears, the government has passed legislation that prevents the new management of former state companies from sacking workers the moment the company is in private hands.

UBL management, for example, is bound by a one-year moratorium on lay-offs.

Although this has simply left the problem of bloated workforces with the companies' new owners, the government has neatly reduced the risk of attack from the unions, analysts say.

Another factor in the government's favour is that the opposition party, the Moslem League, is unlikely to cause trouble as its policy on privatisation is almost identical to that of the ruling party.

For the moment, all eyes are on the sale of the next tranche of PTC, the country's sole provider of fixed line and international telecommunications services and its most profitable company.

This is being seen as a potential milestone in the privatisation process.

"The privatisation of PTC will essentially be a vote for the country. It's the most profitable company in Pakistan," says Farrukh Hassan, Pakistan country head for Crosby Securities.

On current market valuation of PTC, the sale would raise $1.2bn. The government's target for completion is June this year.

Newspaper reports have said about 20 foreign telecommunications companies have expressed interest in the 26 per cent stake on offer, and include British Telecom, AT&T of the US and Singapore Telecom.

■ **Stock exchange:** by Farhan Bokhari

# Foreign capital adds sparkle

## The performance of textile stocks and the pace of privatisation will dictate future trends

Pakistan's stock market analysts were surprised when the first share offer of the Askari General Insurance Company was oversubscribed almost 23 times on the Karachi Stock Exchange (KSE) in December. A month later, the share price had doubled.

The strong performance of Askari was surprising in a year when the Karachi market – an important indicator of the country's business confidence – had plunged. Share prices fell on average by more than 35 per cent, while a number of new issues were undersubscribed at their initial placement.

The response to Askari's share offer had much to do with the special circumstance of the company. Askari's parent group, the Army Welfare Trust, has been growing strongly, and the outlook for the insurance sector is bright.

The investment climate as a whole has changed, too. Investors are not as obsessed as they once were with the small number of blue-chip stocks that have traditionally been the market's top performers.

The rise in Askari's share price is partly a result of the five-year-old economic reform programme. Foreign investors have been allowed for the first time to trade freely, allowing international capital to flow into the market. This has encouraged Pakistani stockbrokers to restructure and enlarge their companies.

At least six brokers have converted their businesses into large brokerage houses, and hired teams of analysts and marketing personnel to respond swiftly to client demands. Share buyers can select stocks using detailed research about the companies listed on the market.

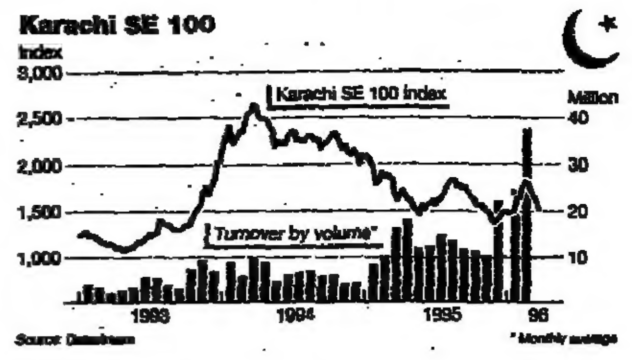
That is in sharp contrast to the situation in the past, when the choice was between the safe blue chips and a collection of barely researched stocks seen more as shares offering a chance to speculate rather than as investment opportunities. Safdar Butt, finance director of the Army Welfare Trust, says: "The response to Askari shows that the market is hungry for good issues."

The market's growing business is also reflected in other ways. Since the end of 1991, when the economic reforms were put in place, the number of companies listed has risen to 770 from 542, the market capitalisation has jumped to Rs380.24bn from Rs188.5bn, the average daily turnover of shares has risen to 31.5m from 2.7m, and the average value of daily turnover has risen to Rs869m from Rs136m.

"The market has become an important player," says Arif Habib, president of the Karachi stock market. "The changes in the way we do business here has meant that we are now noticed worldwide as an important emerging market."

Behind the optimism, however, there are new pressures on the exchange. The growth in trading volumes, for instance, has meant that settlement of transactions takes longer, further aggravating the difficulties of transferring shares to new owners, a process which can often get bogged down in paperwork.

This year, the KSE's management plans two important changes. An experimental network for computerised trading is to be expanded by the summer so that the market can cope with the growing volume of business. The KSE also




plans to establish a central depository, through which buyers would be able to get almost immediate transfer of shares.

According to Nasir Bukhari, chief executive of Khadim Ali Shah Bukhari and Co, one of the fastest growing brokerage houses: "The central depository and computerised trading would certainly raise the trading volumes further. This should generate more interest in the market."

One challenge facing the KSE now that it has close ties with international financial circles is the way in which prices can be influenced by global events. "If the market had not been exposed to international investors," one stockbroker admits, "we may have had a better chance of being saved from the effects of the Mexican crisis."

Many foreign investors remain apprehensive over future trends in the value of the Pakistani rupee, which has been devalued by more than 40 per cent during the past three years. Pakistan is under pressure to narrow its international trade deficit as part of its commitments to the International Monetary Fund. Some analysts expect further devaluation by the end of this year, although Benazir Bhutto's government denies that it has any such plans.

Investors are watching closely this year's trends in the large textile sector and the future of the government's privatisation programme. Almost a quarter of KSE-listed stocks are in the textile sector, and their performance usually dictates the market's sentiment. This year, Pakistan has enjoyed a bumper cotton crop which, in turn, has brought down raw cotton prices in the domestic market. The textile sector should benefit from the cheaper raw material.

The privatisation programme could have an even more significant effect on the market. The government is selling stakes in the Pakistan Telecommunications Corporation, United Bank (Pakistan's second largest bank), a large power generation plant and possibly one of the two large gas companies.

"The success or failure of the privatisation plans will affect the country's entire business trends, including sentiments on the stock market," says one banker in Karachi.

■ **Oil and gas:** by Jeremy Grant

# Sector humming with activity

## Onshore reserves are modest and unlikely to have a significant impact on the big fuel bill

After decades of neglect, Pakistan's oil and gas sector is humming with activity. Foreign investors have been quick to take advantage of a revised petroleum policy passed by the Bhutto government in 1994, offering for the first time generous incentives and almost market prices for commercial discoveries.

However, two years after the landmark policy helped boost domestic production, industry experts are resigned to the view that onshore reserves of oil and gas are modest and unlikely to have a significant impact on reducing Pakistan's big fuel bill.

Indeed, some are starting to talk of the need to import gas, adding to Pakistan's already heavy dependence on fuel from abroad. Last year, the country imported 70 per cent of its liquid fuel needs at a cost of about $1.5bn. On present predictions, that could double by 2000 with the commissioning of a handful of oil-fired power stations by 1998 and demand from population growth of 3 per cent a year, a rate higher than in neighbouring India.

"The gap [between supply and demand] is widening and I don't see anything on the horizon right now that will reduce it. Even if we discover something big now, it'll take a long time to get it on stream," says Masood Sohail, chief executive of Pakistan Petroleum (PPL), a joint venture between Burmah-Castrol, World Bank affiliate the International Finance Corporation, private investors and the Pakistani government.

Nevertheless, foreign interest in exploration has not flagged. Oil was first discovered in the 1880s by the British in what is now north-western Pakistan (a refinery built there in 1920 is still functioning). However, it was not until Ms Bhutto's new policy in 1994 that the terms offered by the government were good enough to attract foreigners to anything but high-risk ventures.

In that year, Islamabad scrapped a formula that reserved for the state oil agency 50 per cent of revenues from commercial discoveries made by foreigners, and opened up fields to a competitive bidding process. Now, the revenue-sharing regime is more equitable at between 15 and 25 per cent, according to foreign oil industry officials.

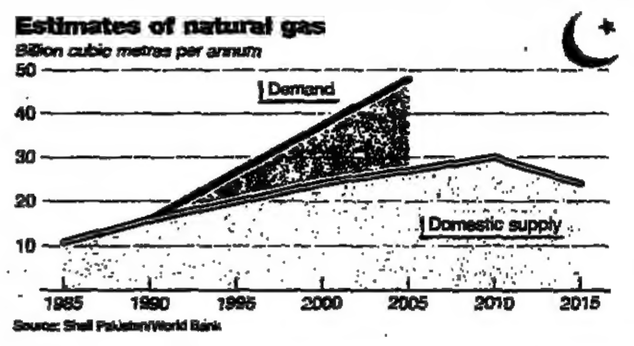
Another important concession was the de-linkage of the gas offtake price from heavily subsidised fuel oil and its attachment instead to a crude oil marker based on a basket of crudes. Being a more accurate reflection of market value, it came close to ensuring that the foreign investors received a market price for discoveries.

Of the roughly 15 foreign oil companies active, most have arrived since the policy took effect. They include Premier Oilfields and Occidental Petroleum of the US, British Gas, Lasmo Oil of the UK and Shell, the Anglo-Dutch group. "Since that time [1994] there's been quite an upsurge in exploration activity," says Bob Summers, general manager for Lasmo Oil Pakistan in Karachi.

Operations have run smoothly, except for the few companies with prospects in the dry wastelands of western Baluchistan. There, trigger-happy tribesmen have been known to take pot shots at foreign oil installations with rocket propelled grenades as a way of wringing political concessions from the government.

The principal oil discoveries onshore have been in the north and in the south, with the bulk of gas in the middle, at the Sui Field. Union Texas of the US is the largest foreign producer of oil with 29 fields pumping 22,000 barrels per day (bpd) of crude and 40m cubic feet of gas at the Badin Block in south-eastern Sindh province. It has invested $375m in exploration and extraction since it arrived in 1977, according to John Latch, general manager in Karachi.

However, the industry seems more inspired by gas than by oil. Industry experts have




established that most oil fields in Pakistan contain no more than between 50m and 100m barrels of reserves and agree that the country is more gas than oil prone. Lasmo started production last month at a gas field at Kadanwari, supplying Karachi with 100m cubic metres of gas daily.

Most indigenous gas production comes from the Sui Field, discovered in 1952 by PPL, with estimated recoverable reserves of 10,000bn cu ft. It pumps 1,900m cu ft of gas per day. An important plank of the 1994 policy was reform of the gas industry, involving privatisation of the two state transmission and distribution monopolies Sui Southern and Sui Northern. This, it is hoped, will lead to greater efficiencies.

However, the stark reality facing Pakistan is that even its gas industry has limited potential. Industry experts estimate that reserves at the Sui Field are likely to peak by 2010. "While on land every little bit helps, Pakistan is not going to be a large oil and gas area," says one senior official at a Karachi-based company.

Some foreign investors say there is some hope for large finds offshore in the Arabian Sea but the 1994 policy does not apply to offshore exploration, where terms are still tough. The World Bank is expected to come up with recommended terms later this year.

That leaves gas imports. There has been much talk about importing from three sources: the central Asian republic of Turkmenistan, Qatar and Iran. But each option is fraught with problems, mostly political.

Any pipeline snaking into Pakistan from the north would have to traverse Afghanistan, which would be risky due to political upheaval there. It is understood that Unocal of the US is studying the possibility nevertheless.

US embargo pressure on Iran means that no foreign investor would be likely to participate in building a pipeline from that country in the foreseeable future. And the Qatar pipeline would have to be laid in deep water, adding considerably to its cost.

However, the senior official at the foreign company says the question is not whether, but when, Pakistan will have to import from these sources. "Those three pipelines we believe can all be absorbed in the first quarter of the next century." And that is likely to strain Pakistan's foreign exchange reserves even further.

**Power:** by Jeremy Grant

# Moves to ease energy crunch

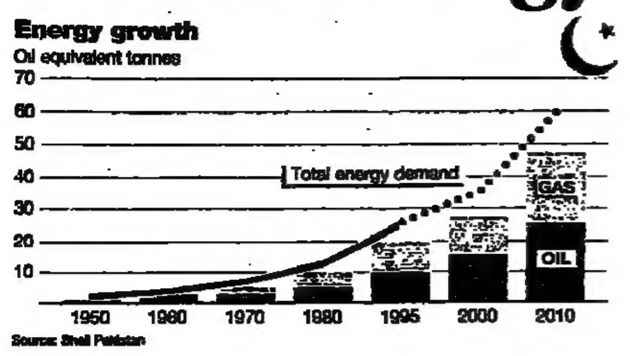
## This year could mark the beginning of the end of the perennial power shortages

For most residents of Lahore, 1996 will go down in memory as the year the city hosted the tumultuous climax of cricket's World Cup.

But for some living in the city's suburbs, all they are likely to remember is a power blackout on the night of the final, as electricity was diverted to the stadium to keep its floodlights burning until the last over.

Pakistan has been short of power for years, but there are hopes that 1996 could mark the beginning of the end of the country's perennial shortages. Private financing has been arranged for a series of power projects that look set to come on stream by the government's target date of 1998, easing an energy crunch that would otherwise have strangled economic growth.

Country-wide installed capacity is 14,000MW, nowhere near enough to meet future demand. Karachi, the commercial capital and port through which most of Pakistan's trade flows, suffers an electricity supply gap of about 730MW, according to a report published last month by UBS Securities in Hong Kong.



Source: Shell Pakistan

The problem is compounded by huge transmission and distribution losses at the two government-run utility companies, the Water and Power Development Authority (WAPDA) – whose hydro-electricity plants generate 40 per cent of total capacity – and Karachi Electric Supply Corporation (KESC).

Industry analysts estimate such losses at KESC rose to 31 per cent in 1995 from 27 per cent in 1994, as much through theft and sloppy billing practices as was due to frail infrastructure. Load-shedding, the diversion of supply from one area to another due to shortage, is common.

However, the power sector has attracted keen interest from foreign investors since a new Private Power Policy was introduced in March, 1994, forming the basis for the industry's shift from state control to private ownership. This offers the prospect of increased capacity just when the country needs it most.

Under the policy, the Bhutto government plans to boost capacity to 17,000MW by 1998 and 25,000MW by 2003. A strategic 26 per cent of KESC is to be sold to private investors by the end of the year, as a way of increasing efficiency in Karachi. The UK's National Westminster Bank heads a consortium of advisers to the privatisation.

Poor transmission and distribution is being tackled under a Transmission System Policy introduced in March 1995. The UK's National Grid has signed a $700m agreement with WAPDA to add 1,500km of lines to existing capacity.

The power policy's main selling points for investors in Independent Power Projects (IPPs) are government guarantees of foreign exchange revenue and a fixed offtake price of 6.5 cents per kilowatt hour. Industry experts say this is generous by regional standards, providing a return on assets of about 17 per cent.

Other encouraging signs have been that the Private Power Board, which is overseeing the bidding process, is staffed by experts from the private sector rather than bureaucrats. Steps are being taken to establish a regulatory authority.

The first project to benefit from the 1994 policy is a $1.8bn, 1,292MW oil-fired power plant 40km north-west of Karachi known as the Hub Power Co (Hubco). Hubco, which is listed on the Karachi Stock Exchange, will provide 17 per cent of Pakistan's electricity once its four thermal units come on stream by March, 1997. WAPDA will be Hubco's main customer.

When it was first proposed in 1985, Hubco was Asia's largest IPP. However it was not until eight years later and the emergence of government guarantees under the power policy that the project took off. Hubco chief executive Mike Woodroffe believes that the agreement on Hubco was seen as a vote of confidence in Pakistan's new power policy. "They (investors) saw Hubco as an indication of the appetite of the market to do this sort of thing. If we hadn't had those guarantees, we wouldn't have had the project."

Financing has since been secured for nine other foreign-invested projects, all oil-fired, which will add 1,455MW to existing capacity by about 1998.

**Private sector power projects (after Hubco)**

| Project name | Capacity (MW) | Location | Technology | Utility co | Lenders | Shareholders |
|---|---|---|---|---|---|---|
| Rousch (Pakistan) Power | 412.0 | Sidhnai, Punjab | Combined cycle | WAPDA | World Bank/Jexim/ANZ | Rousch/Siemens/ESBI |
| AES¹ Lalpir | 362.0 | Lalpir, Punjab | Steam cycle | WAPDA | Jexim/Bank of Tokyo/IFC | AES, IFC |
| AES Pak Gen | 368.0 | Lalpir, Punjab | Steam cycle | WAPDA | IFC/Jexim | AES, IFC |
| Gul Ahmed Energy | 136.2 | Korangi, Sindh | Oil-fired | KESC | IFC/Finnish Export Credit | Tomen Corp, Japan |
| Japan Power Generation | 120.0 | Raiwind, Punjab | Oil-fired | WAPDA | Toyota/Tsusho | |
| Kohinoor Energy | 131.4 | Raiwind, Punjab | Oil-fired | WAPDA | IFC/Finnish Export Credit | Tomen Corp, IFC,Wartsila |
| Power Generation System | 116.0 | Patoki, Punjab | Oil-fired | WAPDA | Interglob Bank | |
| Southern Electric Power | 115.2 | Raiwind, Punjab | Oil-fired | WAPDA | Coface²/Nissho Iwai | BC Hydro Canada |
| Tri-Star Energy | 110.0 | Mauripur, Sindh | Oil-fired | KESC | Itochu (underwriter) | |

¹ American Electric Services; ² French Export Credit Agency

Source: Ministry of Water and Power

Although analysts say Islamabad had no choice but to adopt a fast-track strategy to plug the power gap – on the advice of the World Bank – the government, by doing so, has sown the seeds of foreign exchange supply and other problems.

The first taste of this will come shortly, once power plants start to suck in imports of large capital equipment.

An additional strain will be a sharp increase in fuel imports when power plants start generating power. Sensing the scale of the problem, the government last month capped the number of projects that rely on fuel imports and stipulated that future proposals would only be considered if they tap indigenous resources.

"It was really not our choice, it was the choice of investors to go for oil fired [plants]. We didn't like that, of course, as it creates a foreign exchange burden," says Anis Khan, vice-president of the government's private power and infrastructure board.

For KESC and WAPDA, the challenge will be to maintain a flow of cash to the IPPs from which the two utilities are buying power. This means improving collection from consumers, which in the case of WAPDA, is "not very good at all", according to Hubco's Mr Woodroffe. A team from Hubco is training WAPDA staff in better collection methods.

Once semi-privatised, KESC management will have to find ways of striking a balance between investor returns and politically sensitive consumer needs.

Some industry analysts are already predicting electricity price rises of about 15 per cent in Karachi in the second half of this year.

"People are waking up to the realisation that these issues should have been given consideration then [in 1994]. It will create enormous burdens for the government. The main question is how is the consumer going to cope?" says one Karachi-based stockbroker.

IPP investors acknowledge these concerns but point out that Pakistan was probably the first developing country to offer government guarantees on foreign exchange availability to IPP investors.

As to the value of such guarantees given the country's existing foreign exchange problems, they derive some comfort from the fact that Islamabad has never defaulted on sovereign debt repayments. "If you look at the names involved in IPP in Pakistan, it's hard to say no-one takes a government guarantee seriously," says Mark Baughan, an analyst with UBS Securities in Hong Kong.

**Textiles:** by Victor Mallet

# Still lagging behind the world

## Reforms have been designed to make the industry more internationally competitive

For an industry that is the lifeblood of the economy, Pakistan's textile business has been remarkably slow to develop.

It did not help that Zulfikar Ali Bhutto, the country's left-leaning leader in the 1970s, discouraged private sector investment, inhibiting the growth of large private companies in the industry and consigning it to the care of thousands of smaller units with little ability to invest.

Nor was the industry improved by years of subsidies, or by recent export curbs on raw cotton; this kept the costs of spinning cotton into yarn artificially low and allowed Pakistani spinners and the makers of coarse, undyed cloth to export their products on the basis of price rather than quality.

The result – for a sector earning half the export revenue – is overcapacity in spinning, an underdeveloped weaving industry that has failed to move quickly into more lucrative downstream products, and a fledgling garments industry that is only now beginning to take advantage of easily available raw materials and relatively cheap labour.

"There was an over-expansion in cotton spinning," laments V.A. Jafarey, the prime minister's adviser on finance, who is eager for new sources of scarce foreign exchange. "If they had invested even 10 per cent of that in garments..."

Mr Jafarey, and commercial bankers in Karachi, reckon that Pakistan, which accounts for nearly a third of the world's yarn exports, could add value so as to earn five times as much as it does from cotton products today. "What is lacking is management, investment," he says. "This is where we are encouraging foreign investors to come in."

Ahmed Bilal Mohyal, analyst at Karachi stockbrokers Global Securities, agrees. "Most of the the companies didn't need to market their products in the past. There has been very little improvement in product development and the adding of value."

That may be about to change. Two years ago the government took away subsidies, removing the artificial 20 per cent price advantage that spinners had enjoyed and forcing them to face up to international competition.

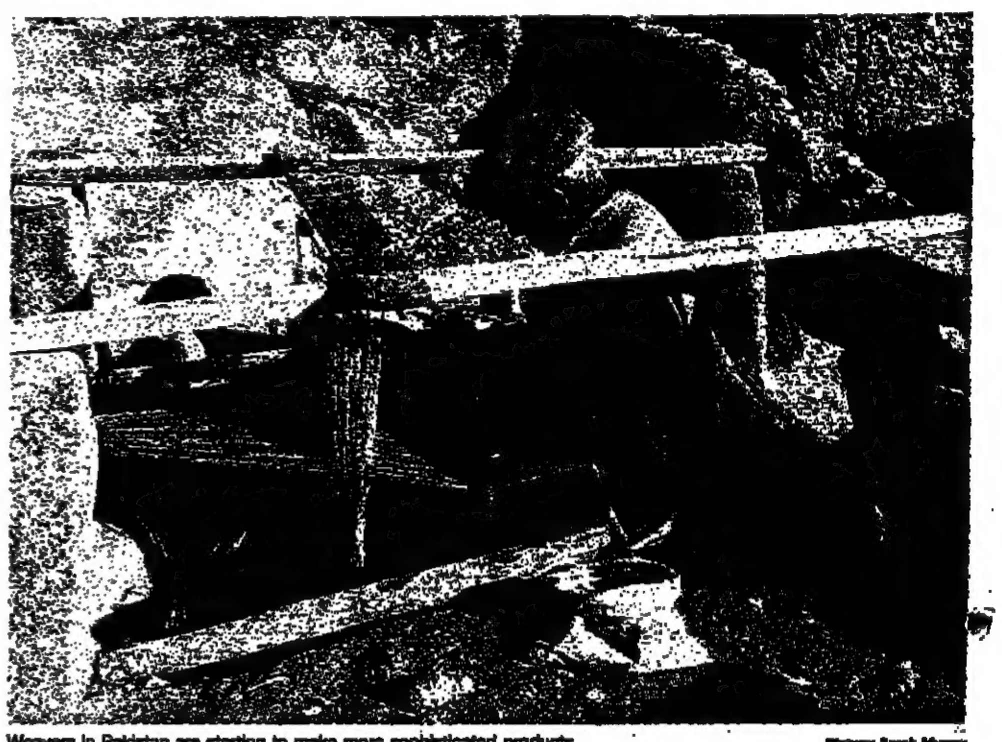
Spinners, although confined largely to the manufacture of the kind of coarse yarn used in jeans because of the short staple (fibre) length of Pakistani cotton, have also moved into the spinning of cotton-polyester mixtures (partly encouraged by the local cotton shortages of recent years).

Polyester manufacturers have been established to serve them, and they in turn will be supplied with locally-made pure terephthalic acid (PTA), their main raw material, when Imperial Chemical Industries has completed its $450m PTA plant at the end of next year.

Weavers are starting to make more sophisticated products. And both local and foreign garment manufacturers are beginning to make their mark. Crescent Textile Mills, for example, has a stake in the recently-opened $80m Crescent Greenwood jeans factory in Faisalabad.

The size of a company appears to be an important factor in success in the Pakistani textile sector, because the financially stronger companies can buy large supplies of cotton when prices are low. They can also invest in downstream activities to compete with China and India on the world market as tariffs are reduced and country-by-country import quotas are eliminated under international trade agreements.

"It is fundamentally a big boys' business," says one Pakistani banker in Karachi. "The quality controls that are needed in the value-added sector require a depth of management that is not available in the smaller companies. If the cuff on a shirt for Levi's is not the same as the other cuff, then Levi's will reject it."


Weavers in Pakistan are starting to make more sophisticated products — Picture: Sarah Murray

Even the big companies that avoided the losses and loan defaults of their smaller rivals in recent years have not forgotten how to complain, and some manufacturers are calling for the reimposition of the cotton export ban.

They say the government favours the cotton growers at the expense of industry because many MPs are "feudals" or landlords with big agricultural holdings, and some of the MPs who defected from the opposition to support Benazir Bhutto's government are cotton producers.

One specific problem is the rising cost of electricity, which can account for 10 to 15 per cent of a spinner's costs. Another is the rebate system whereby exporters can reclaim the duties and taxes on their imported raw materials, such as chemicals, when they export a finished product. Some imports are not eligible for refunds, and for those that are eligible the rebate is calculated at an unjustly low level, the cloth and garment makers say. The government, furthermore, has a chronic budget deficit and a habit of delaying repayments that are due.

"Your claim lies in customs for months because the government doesn't have the money," says Tariq Saigol, chairman of Kohinoor Textile Mills, one of the big manufacturers.

One of the supposed advantages enjoyed by Pakistan's textile businesses is a secure supply of domestically-produced cotton. "There is competition, but many countries don't produce raw cotton," says the banker in Karachi. "Some 60 per cent of value added business is in countries with no raw cotton."

While there may be an element of truth in the argument (Pakistani governments are not beyond being persuaded to impose export bans, and reduced transport costs are certainly a benefit), it suggests that people are already starting to forget the purpose of the recent reforms and removal of subsidies: to make Pakistan's industry internationally competitive.



**Cotton:** by Farhan Bokhari

# Bumper crop boosts economy

## Almost 60 per cent of export income usually comes from cotton and cotton products

Sultan Ahmed Bhutta is eager to deal with unattended family matters at his village, Dera Mohammedi, outside the city of Multan, in the heart of Pakistan's cotton belt. The house needs a paint job, the bills from local shopkeepers have piled up, and one of his five sons has long been waiting to get married. This year, after a bumper cotton crop, which has finally turned around the fortunes of thousands of cotton farmers like Mr Bhutta, the family has money to deal with all of those needs.

The success enjoyed by Mr Bhutta does not end at the borders of Pakistan's vast cotton belt, most of it in central Punjab province: the country's economy expects a breathing space after this year's good cotton harvest, which followed three successive years of crop damage caused by a large-scale attack of the "leaf-curl" virus. The government estimates the crop size to be more than 10m bales or 30 per cent more than last year.

Poor crops in previous years had upset official projections on such vital matters as export earnings and economic growth rates. That is because almost 60 per cent of Pakistan's export income usually comes from cotton and cotton products.

It was partly in expectation of a better crop this season that Islamabad accepted the tight conditions tied to an International Monetary Fund loan agreed in December, which was essential to shore up falling foreign exchange reserves and restore international confidence in the economy.

Pakistani exporters expect to sell up to $700m worth of raw cotton in international markets before the fiscal year ends in June. That would be equivalent to just under half the latest estimate of the country's official foreign exchange reserves.

Out in the fields, there are many explanations for the good harvest, including the use of newer varieties of seeds and a substantial increase in the area under cultivation. Zahoor Ahmed, Pakistan's top cotton scientist who heads the national Cotton Research Institute at Multan, says: "The area planted with the [leaf-curl] virus tolerant variety has increased to 60 per cent [of the crop land] and most of the varieties susceptible to pest attack have been eliminated."

Other officials say that farmers increased their cotton acreage because many believed in a traditional myth that pest attacks usually occur in three-year cycles; farmers thought the cycle of doom affecting their land had ended. Besides, many growers were also tempted by rising prices of raw cotton in the local markets and were therefore prepared to take the risk.

That said, the long-term prospects for cotton are still unclear. Several problems remain unresolved and it is not certain that this season's performance will be repeated.

Many farmers complain that adulteration of pesticides by unscrupulous traders and the rising price of fertilisers have hurt them badly.

Officials agree that the deregulation of the local pesticide market five years ago allowed many new entrants to start up businesses while there were few government measures to ensure strict quality control.

Last year, the government announced tough new laws with a maximum seven-year prison sentence and fines of up to Rs500,000 for offenders, but the pesticide adulteration problem has continued because few people have actually been punished.

Mr Ahmed believes that "if some people were imprisoned, the adulteration could disappear from this country".

Other issues that need to be resolved in the cotton belt are common to the agricultural sector as a whole, including inefficient irrigation, poor utilisation of land and widespread illiteracy.

The future of cotton in Pakistan will also be determined to a large extent by the future of the textile industry, the largest domestic consumer of raw cotton. Rising cotton prices are part of the reason for falling profits at many textile companies in recent years.

The government has encouraged textile businesses to diversify and move downstream into the manufacturing of value-added products such as cloth and fashion garments. One government official says: "If there is a turnaround in profits for textiles, growing cotton is bound to remain a profitable business."


Cotton and cotton products account for nearly 60 per cent of Pakistan's export income — Picture: Sarah Murray

صكنا من الاصل

**Agriculture:** by Farhan Bokhari

# World Bank urges reforms

**Millions of farm jobs could be jeopardised by the stagnation of agricultural output**

One would not necessarily guess from the peaceful scenes in the villages of Punjab province, where farmers walk past pools of rain water in the alleyways between their thatched huts, that Pakistan's agriculture faces difficult times.

The fertile Punjab has traditionally taken pride in higher crop yields than the rest of Pakistan. In many ways, its inhabitants are more fortunate than those in the poorer areas, such as the deserts of neighbouring Sindh province or the dry and rocky North West Frontier province.

Peasants in the Punjab were among the first in the country to enjoy satellite television, thanks to a proliferation of satellite dishes in small towns. Anecdotal evidence suggests that the American series Baywatch attracts a large number of viewers, many of whom cannot read or write.

But even Punjabi farmers may continue to live in harsh conditions – except for occasional breaks watching television at the home of one of their wealthy feudal landowners – because farm incomes for the poor may be in long-term decline.

According to a recent World Bank report, millions of agricultural jobs could be jeopardised by the stagnation of farm output unless the government introduces sweeping agricultural reforms. Other experts have made similar predictions, suggesting that imports of food grains such as wheat will also add a heavy burden to the import bill.

"For 25 years, agricultural growth has been a key source of growth in Pakistan's gross domestic product," wrote Rashid Faruqee, the World Bank official who prepared the study. "The momentum may be running out."

The future of agriculture is crucial to Pakistan's economy. This year's economic recovery, with the overall growth rate edging up to 6.5 per cent, is largely led by a 40 per cent increase in the cotton crop over last year. Besides, more than half of the labour force is employed in agriculture, and the sector is responsible for 24 per cent of the country's gross domestic product.

> The agriculture sector is under pressure to tighten its belt

According to the World Bank, Pakistan needs to consider reforms such as improving its inefficient water irrigation system, educating farmers to use the latest agricultural technology, and redistributing big land holdings among more farmers, so that smaller and more productive farms are created. Pakistani officials, however, are not terribly eager. The government has rejected the idea of turning over irrigation to a market-based system, for fear that private managers would exploit the canal network. But it has few alternative suggestions for dealing with the irrigation canals, which badly need to be repaired. There is stiff political opposition to land reforms, largely because up to 70 per cent of Pakistan's elected legislators at the parliament in Islamabad and in the four provinces are themselves large landholders.

Shah Mehmood Qureshi, a government minister who chaired a task force to examine the problems of the agriculture sector, says: "Countries that had restricted the size of land holdings, such as the former Soviet Union and eastern Europe, were also the ones faced with falling production levels, while those that have not restricted, such as those in western Europe, the US and Canada, have encouraged growth in the agriculture sector."

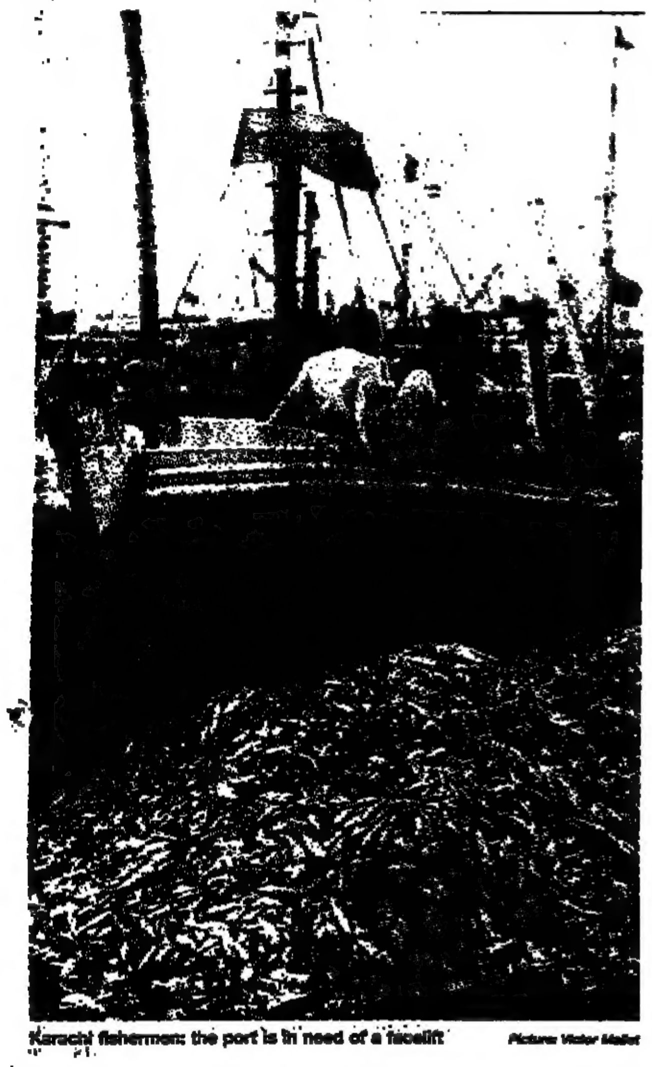
Mr Qureshi says the stagnation in production has occurred largely because of a transfer of public sector resources for development to the urban areas, while rural areas were neglected during the past two decades. "Given the right incentives, we can turn around the performance of our agriculture sector."

Still, the agriculture sector is under pressure to tighten its belt. A large portion of the official subsidies for inputs such as fertilisers has been withdrawn. The government also plans to increase the hitherto minimal "wealth tax" collected from agricultural lands, as part of an agreement with the International Monetary Fund.

Gathering in the crop: Pakistan's farmers are facing hard times *Picture: Jeremy Grant*

This year may be a difficult time to tackle such a sensitive issue as tax. Inflation in rural areas has already prompted fierce criticism by farmers of government policy. The prices of fertilisers, diesel fuel and pesticides have shot up. Many farmers are also bitter over a steep increase of up to 30 per cent in power costs during the past 18 months, as part of a government plan to eliminate subsidised electricity rates.

In spite of the problems, the World Bank report indicates some optimistic trends. For instance, the livestock sector now accounts for more than a third of the annual output from the agriculture sector, up from 15 per cent 20 years ago. Similarly, fisheries and forestry, though still minor contributors to the sector, have grown rapidly.



Karachi fishermen: the port is in need of a facelift *Picture: Victor Mallet*

**Karachi port:** by Jeremy Grant

# Cracks in the nation's lifeline

**A $369m master plan to modernise Karachi port is under consideration**

The acrid stench of heavy sulphur fuel oil hangs in the air at the oil terminals in Karachi port as flags flutter over the yacht club across the bay.

A tangle of rusting pipes runs from the waterfront where ships unload fuel, molasses and other liquid cargo, and along a depression in the ground to oil installations nearby. Before the fuel reaches storage tanks, some of it is lost through leakage or theft by young men riding donkey carts through the area.

This is the "KPT Trench", which takes its name from the Karachi Port Trust (KPT) that has run the port since 1887. Despite its decrepit and clearly dangerous state, the KPT Trench is of vital strategic importance to Pakistan because almost all of the country's fuel imports flow through it. "This is basically the lifeline of the whole country," says Syed Munir Ahmad, installation manager for Anglo-Dutch energy group Shell. However, many of its pipes date back to the 1960s and should have been replaced years ago.

As it is, they struggle to cope with current demand; Pakistan imports 70 per cent of the fuel it needs and annual amounts are rising fast. According to Pakistan Petroleum Ltd, fuel imports are set to rise to 24m tonnes in 2000, from 10m tonnes estimated for this year and 5.2m tonnes in 1990. And Karachi looks set to continue bearing the brunt of fuel imports.

Most of the extra fuel will be required to feed new, oil-fired power plants that the government needs to boost existing generating capacity nationwide to 17,000MW from 14,000MW in only two years.

However, the problems at the KPT Trench are only part of the story at Karachi port. It, too, is in need of a radical facelift. Facilities dating back to the days of British rule are still used, such as a 100-year-old wharf. The KPT itself is still housed in its original headquarters, a huge domed building which briefly saw service as a 500-bed hospital for troops in the first world war.

Traffic through Karachi was a mere 2m tonnes of cargo annually when Pakistan gained independence in 1947. By 1995, the figure was 24m tonnes, with 38m estimated for 1997-98 and 47m tonnes for 2002. According to a study by a US consultancy last year, the country will continue to rely on Karachi port to handle 75 per cent of Pakistan's seaborne trade for the next 30 years.

KPT officials say port congestion has been kept to a minimum so far, partly thanks to a World Bank loan worth $91m extended in 1991, through which the KPT has built new jetties, bought dredgers and started to rebuild a bridge and road network outside the port. But the officials admit that cracks are appearing in the system. "The Achilles heel for Pakistan is its port," says one senior foreign oil industry official.

According to KPT chairman Rear Admiral Akbar H. Khan, a graduate of Dartmouth Royal Naval College in the UK, the solution is containerisation: "To cater for that [growth in traffic] it is absolutely imperative for Karachi port to have a dedicated container port terminal, which regrettably we do not have at this point in time."

The port has 28 berths but only one is capable of handling vessels of 75,000 dwt. A World Bank-funded master plan completed early this year calls for the construction of a $100m container terminal that would boost annual container traffic to 1.9bn teu in 2022 from 990,000m teu in 2002 and 500,000 teu in 1995. Separately,

> Facilities dating back to the days of British rule are still used

American President Lines (APL) is understood to be considering a second container terminal involving an investment of $80m on a build-operate-transfer basis.

Other projects in the plan are the construction of a hazardous cargo terminal, channel dredging and rehabilitation of other bridges and roads. The total cost of projects in the master plan is expected to be $369m, with $187m on loan from the World Bank under an agreement to be signed this month. The target for completion is December 2001.

However, progress with the existing programme of upgrades has been slow. China's Yunnan Corporation is badly behind schedule on a $40m bridge and road rehabilitation near the port and private sector interest in container terminal investment has been lukewarm, according to a study by the KPT's planning and investment division.

An additional headache for the KPT is the apparent reluctance of the state-run railway to deal with railway congestion at the port, where rail tracks criss-cross an area used by trucks carrying fuel. All this does not bode well for KPT as it tries to ensure targets are met.

With work progressing slowly and the World Bank deal still to be finalised, others have offered alternative solutions. Shell, Caltex of the US and Pakistan State Oil have suggested easing the burden on the KPT Trench by building an oil terminal at nearby Bundal Island, on the mouth of the Indus river. This roughly $100m facility would accommodate tankers of up to 120,000 dwt and connect to a pipeline, yet to be built and running north to a refinery in Punjab. Bechtel, the US engineering group, is to complete a feasibility study for the pipeline project by June.

Meanwhile, the KPT is likely to feel some extra pressure to get things moving as a result of increasing interest in Karachi from Pakistan's neighbours, who are eyeing Karachi port for the access it could give them to the Gulf's shipping lanes. According to Rear Admiral Khan, Islamabad only six months ago signed cross-border road pacts with Kazakhstan, Tajikistan, Kyrgyzstan and China as a first step towards closer trade ties, and, eventually, possible access to Karachi port.

Until this happens, the KPT has an enormous task ahead to complete its programmes on time. The KPT's chairman, seated in a vast office complete with green leather-bound armchairs and nothing but the sound of an old English clock ticking in the background, is optimistic: "We are moving very fast in that direction."

**Quetta:** by Jeremy Grant

# On the border of violence

**Baluchistan is connected to the rest of Pakistan by only the loosest political threads**

If Kalashnikov machine guns make you nervous, you probably won't feel comfortable having dinner with Nawab Mohammed Aslam Raisani. For at most times of the day and night, the chief of the Raisani clan is rarely without his turbaned bodyguard.

In fact, you may not be entirely happy about the attitude of the doorman who receives visitors at Mr Raisani's detached villa in central Quetta. He, too, carries a Kalashnikov, and has an unsettling habit of fingering it as he checks visitors' identity.

But this is Baluchistan, a province of Pakistan where tribal violence and brigandry are as much a part of the daily routine as prayer to the Moslems of Islamabad, Karachi and Lahore. It is therefore easy, after seeing other parts of the country, to feel that Baluchistan is connected to the rest of Pakistan by only the loosest political and cultural threads.

The town's location, in a dramatic setting ringed by mountains only 80km from the Afghan border, reinforces this impression. From the earliest days, Quetta was nothing more than a military pit stop on the way to Afghanistan. Deemed strategically important to the British in the 19th century, the town became a military arsenal in 1877, supplying troops on their way north to Afghanistan.

The British even chose Quetta as the site of the Indian Staff College. The Lonely Planet guide book describes it as "the Raj's answer to Sandhurst".

Although virtually levelled in 1935 by an earthquake, Quetta still betrays its British past in some of the colonial buildings that have survived since the town was rebuilt shortly afterwards.

It population was – and still is – a colourful mix of tribes, mainly Pashtuns, Baluchs and Brahuis, although there are Hazaras and smaller groups. The Pashtuns are close, ethnically and culturally, to the Afghans.

Indeed, it was Quetta that spawned the mainly student Taliban movement besieging the Afghan capital Kabul. It is here, also, that Afghan refugees have lived in camps ringing the city since the Soviet invasion of Afghanistan in 1979. There are currently 400,000 of them.

For centuries, rivalry between the tribes has been fierce and the complexity of inter-clan relationships was too much for the British, who realised the expediency of allowing the tribes of Baluchistan a degree of feudal autonomy.

Islamabad appears to take the same view and has allowed the British system to survive. Local feudal chiefs still wield considerable powers and maintain small militia.

Nevertheless, the relationship between the central government and Baluchistan's splintered tribal groupings is uneasy.

Clan militia find that token attacks on the province's infrastructure are a useful way of reminding Islamabad of the apparent limits of the centre's powers. Visits to Quetta by top central government officials are rare.

In his study, Mr Raisani offers his visitors a perspective into local politics: "I am at war with three tribes. That's the reality here." He brushes cigarette ash from his brown leather jacket and strokes an abundant black beard.

This is no exaggeration. His father was "assassinated" by a rival clan recently on the valley road near Quetta. A few weeks back, one of his tribesmen was killed in a gun battle in another part of town. There is talk of revenge.

However, as finance minister of Baluchistan from 1991-1993, Mr Raisani has experienced the hurly-burly of local politics. Like Pakistan's other provinces, Baluchistan has an elected assembly. However, the difference here is that five tribes and at least the same number of parties are represented, causing squabbles and legislative paralysis.

"We need to move towards a polity that is more decisive. It's a hodge-podge. When you have a hodge-podge, you have no discipline," says Mr Raisani.

Suddenly, at his elbow, a red phone rings. It is one of his political activists, wondering if the meeting scheduled for the next day is still on. Despite losing his assembly seat in the 1993 elections ("I lost because of the drug Mafia") Mr Raisani wants to return to politics. His brother is the province's industry minister.

He is flirting with the idea of joining the PPP, the ruling party of prime minister Benazir Bhutto, switching his allegiance from the Pakistan National Party.

This is perhaps surprising from a man whose political heroes include the central American revolutionary Che Guevara and the Ayatollah Khomeini, late spiritual leader of Iran. Pictures of these two are displayed prominently on a mantelpiece opposite a photograph of Mr Raisani standing with Britain's Prince Philip during a trip to Baluchistan in 1988.

Quetta was always a frontier town and it probably will stay that way. Unless, Mr Raisani asserts, there is peace in Afghanistan. "When there is peace in Afghanistan, you can imagine when this trade route is opened and the jobs generated for the people."

Until that happens, Baluchistan and Quetta will, for the visitor, still mean clan warfare, Afghan refugees and spectacularly scenery. As one native of Quetta in his fifties says, the system may be imperfect but it's a system that works for Baluchistan: "Yes, it is certainly somewhat chaotic. But we have a certain order in tribalism. With us, it's a tradition of give and take. In the other provinces where there's no tribalism, there's no beginning and no end."





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■ **Karachi:** by Victor Mallet and Farhan Bokhari

# Conflict of ideas

## Life in the financial centre of Pakistan has been severely disrupted by violence

The sight of the security forces with their semi-automatic weapons peering out from sand-bagged bunkers in the centre of Karachi is not one to inspire foreign investors with confidence in the Pakistani economy.

Of all the problems faced by the government of Benazir Bhutto, the political violence in Karachi has been the most intractable - and the most damaging to business.

With a population of some 13m, Karachi is the business and financial centre of the country and the main port, accounting for 60 per cent of the nation's tax receipts and most of its trade. But life in the city has been severely disrupted by fighting between the government and the Mohajir Qaumi Movement (MQM), which represents the refugees who fled from India at partition in 1947.

More than 2,100 people were killed in Karachi last year. The MQM has called numerous protest strikes and the government has switched off the city's mobile telephone systems to hamper the communications of MQM guerrillas. Some Pakistani and foreign businesses have moved their offices and factories, either to safer areas in Karachi or to other cities such as Islamabad, and occasionally abroad.

"More concerted efforts are required [to revive the economy] because with this bad patch of terrorism and strikes, a lot of industries have closed down and moved from Karachi," says Jameel Yusuf, a businessman who heads the Citizens-Police Liaison Committee, which monitors crime in the city. "So there'll be fewer job opportunities, and when there are fewer job opportunities there's a fear that crime may increase."

Karachi, in short, symbolises much of what is wrong with Pakistan: conflicts between ethnic groups, a lack of a national identity, the spread of crime, poor services for transport, education and sanitation and an often corrupt political system based on a mixture of intimidation and patronage.

The situation has, however, improved markedly in recent months. This appears to be the result of a ruthless government campaign to hunt down and kill MQM suspects. Dozens have been arrested and then shot, with the authorities claiming to have killed them in transparently manufactured "encounters" and "gun battles". One of the most prominent such victims was Mohammed Naeem Sherri, a 26-year-old with a price of Rs5m on his head who was killed on March 11: pictures of his blood-soaked body were shown on the front pages of local newspapers.

Despite the apparent short-term success of the government's latest drive against the MQM, many Pakistanis – from human rights activists to Karachi businessmen – say the "extra-judicial" killings may be counterproductive and insist that there will have to be a negotiated end to the conflict.

"The average body count has gone down to one or two a day. They have really broken the back of the militants," said the editor of a Pakistani political magazine recently. "But a lot of innocent people have been killed on the way and you create new terrorists when you do that."

> More than 2,100 people were killed in Karachi in 1995

MQM members, however, are no angels. The organisation (its name means "refugees national movement") was once an ordinary political party but had a reputation while in local government for torturing and intimidating its opponents. It went underground four years ago after an army crackdown. Its leader, Altaf Hussain, lives in exile in north London; he has applied to the UK for political asylum. "Long live Altaf!" say the graffiti scrawled on the dusty walls of Karachi slums.

The MQM represents the millions of mohajirs, or refugees, who say they have suffered discrimination in jobs and other areas at the hands of Sindhi nationalists. The ruling party of Ms Bhutto, the Pakistan People's Party, has a particularly strong base in Sindh, and the emergence of the MQM was sponsored by the late dictator General Zia ul-Haq as a counterweight to the PPP.

Elsewhere in Pakistan, the Urdu-speaking mohajirs were more easily integrated. Language was an important factor; Urdu is much closer to Punjabi than to Sindhi. In Sindh the resentment between the mohajirs and the original residents remains strong.

Mohajir grievances have been intensified by Pakistan's failure to adjust its political system to take account of the increasing number of city-dwellers, many of them mohajirs. There has been no census since 1981 and the distribution of seats in the national parliament, where feudal rural landlords hold sway as MPs, is weighted heavily in favour of the countryside and against the urban middle-class citizens who run the MQM.

Further complications include the existence of an organisation called MQM-Haqiqi ("the real MQM"), which is regarded as a front for government informers, and the tendency of bandits to use the MQM umbrella to hide their criminal activities. Drug-related crime and feuds between Sunni and Shia Moslems have also been behind some of the violence.

Numerous weapons, many of them filtering down from the Afghan wars, are available to anyone who cares to buy them. "In Karachi, arms are available like groceries, and you don't need an Oxford University degree to learn how to use a weapon," says Ajmal Dehlavi, a newspaper editor who heads the MQM's team for negotiating with the government.

He says there has been no meeting between the two sides since September and warns of a "bloody civil war" on Karachi's streets if Mr Hussain loses control of the movement's impatient militants in the absence of a settlement. He does not rule out a further fracturing of Pakistan (from which Bangladesh won its independence in a war in 1971).

"If the mohajirs do not get representation in jobs which should be theirs by right, then that would push them more towards disintegration," says Mr Dehlavi.

In the meantime, there is still a chance for some kind of peace, with government officials suggesting that a quiet period of a few months could be followed by local elections in Karachi – which the MQM would win.

Foreigners and Pakistanis alike are longing for the day when the patrols of heavily-armed Pakistani Rangers and the emplacements of sandbags on the city's roundabouts can be withdrawn. "I think the law and order situation has improved, but the problem stays there," says Badruddin Khan, president of Schön Bank.

# PAKISTAN
## Visitor's guide

Pakistan's five-year-old economic reforms have opened new opportunities for investors. Here are a few tips for visitors:

### ■ Telecommunications

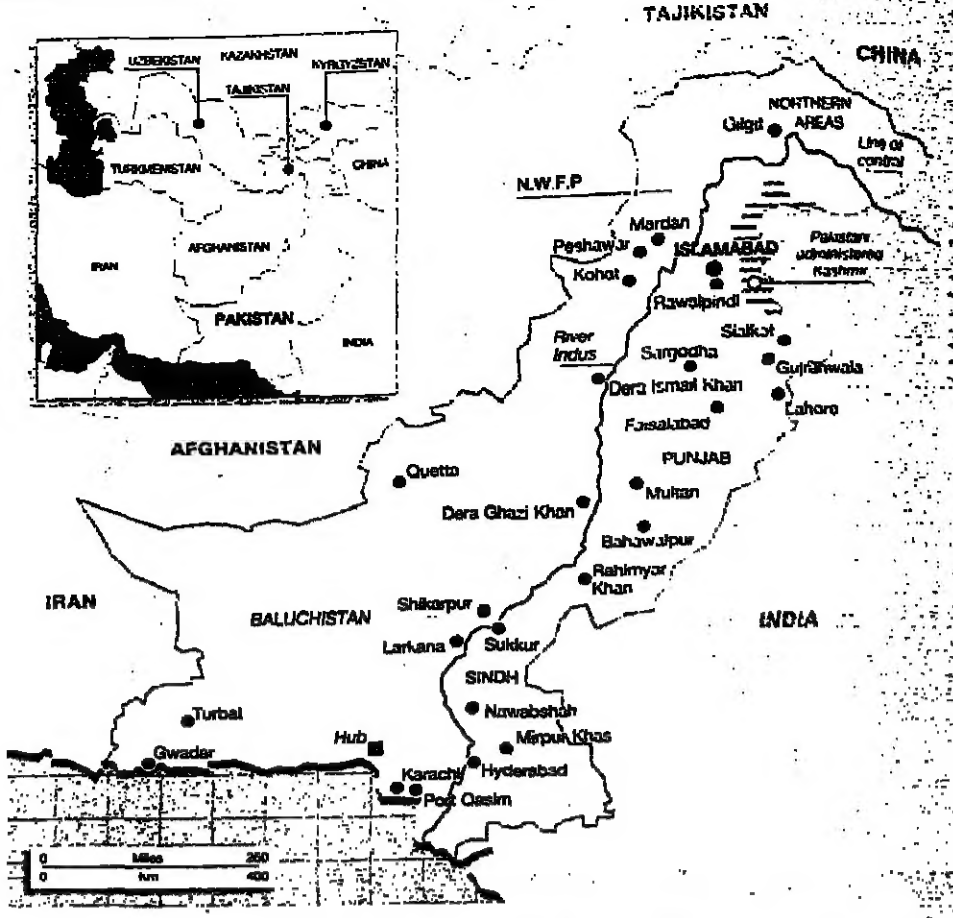
Telephone lines have improved considerably in the past few years and many hotels allow guests to make direct international phone calls from their rooms. However, the charges for calls from hotel rooms are exorbitant, sometimes as much as double those charged by the local phone company.

Visitors to Islamabad and Lahore may find it useful to rent a mobile telephone through local contacts. E-mail networks are beginning to be introduced, though still have a long way to go. Visitors can place overseas computer calls from their rooms and access Compuserve or Internet through nodes in Europe or east Asia.

In Karachi, visitors are still unable to rent a mobile telephone. The local administration shut down the service last year, as part of a security clampdown against militants who were suspected of using mobile phones to communicate with each other. But Karachi has a large number of hotels and visitors can obtain large discounts compared with Islamabad and Lahore. That may, to some extent, help to compensate for making international calls from rooms.

### ■ Health hazards

Similar to those in some of the other Asian countries. Take medical advice about innoculations or vaccinations before travelling. Try to avoid tap water, salads and ice cubes. Mineral water can be purchased in many large general stores and is generally considered safe.




### KEY FACTS

| | |
|---|---|
| Area | 796,095 sq km |
| Population | 129.7m[1] |
| Head of state | Farooq Leghari |
| Prime minister | Benazir Bhutto |
| Average exchange rate | 1995 \$1=Rs31.5995 |
| | 1996[2] \$1=Rs34.3226 |
| Currency | Pakistani rupee |

**ECONOMY**

| | 1995[4] | 1996[5] |
|---|---|---|
| Real GDP growth (%)[3] | 4.7 | 6.5 |
| % share of GDP | | |
| Agriculture | 24 | N/A |
| Industry | 27 | N/A |
| Services | 49 | N/A |
| GDP per head (\$)[3] | 461 | N/A |
| Consumer price index rise (%)[3] | 12.9 | 8.5 |
| Total investment as % of GDP[3] | 19.1 | 19.3 |
| Savings as % of GDP[3] | 14.9 | 15.3 |
| Budget deficit as % of GDP[3] | 5.5 | 5.0 |
| Current a/c deficit as % of GDP[3] | 3.5 | 4.1 |
| Exports (\$bn) (f.o.b.)[3] | 7.88 | N/A |
| Exports % change on year[3] | 19.5 | N/A |
| Imports (\$bn) (f.o.b.)[3] | 10.14 | N/A |
| Imports % change on year[3] | 21.5 | N/A |
| Remittances from Pakistanis abroad (\$bn)[3] | 1.87 | N/A |
| External debt (\$bn) | 31.8 | 34.7 |
| Domestic debt (Rsbn)[3] | 796.8 | N/A |
| Foreign debt service as % of exports[3] | 43.3 | N/A |
| Foreign debt service as % of foreign exchange earnings[3] | 27.9 | N/A |

[1]Estimate; [2]Year to date [3]Years ending June 30; [4]Provisional; [5]Forecast or target
Sources: State Bank of Pakistan, ADB, EIU, Datastream

### ■ Religious customs

Pakistan is a Moslem country, and visitors are expected to dress and to act accordingly. The sale of alcohol is officially banned though drinking does take place in the privacy of homes. Visitors are advised not to attempt to buy liquor through illicit markets, largely because reliable contacts are needed to buy alcohol. An exception is made in hotels where overseas non-Moslem visitors are allowed to order alcohol to be served in their rooms. But this requires a signature on several forms, one of which requires an undertaking that alcohol is not offered to Moslems.

### ■ Business facilities

Economic reforms have made life easier, in theory, for business people. Government sanctions are not required for new ventures though an LOS (letter of support) from the relevant ministry is sometimes essential to arrange financing and other details. Check whether the infrastructure needed for a project – power, roads and telephones – especially in remote areas, is available. Liberalisation of banking has helped to create a large local foreign exchange market which generally offers better rates than the official rate offered by banks. Watch out for counterfeit currency notes.

### ■ Travel

Book flights on domestic routes through a reputable travel agent before visiting Pakistan. Make sure that these flights are confirmed on arrival because reservations can go astray. The Islamabad to Lahore route is especially congested.

Trains are slow and road traffic conditions can be dangerous, due to speeding buses and trucks.

### ■ Scenic attractions

Pakistan offers beautiful scenery in a number of its regions. Towards the north, Gilgit and Hunza, close to the Chinese border, are the last towns before the Himalayan mountain ranges. Visitors to Islamabad, may care to make a day trip to Bhurban, near Murree, which is in the mountain area.

Pakistani-controlled Kashmir is within easy reach of Bhurban, but foreigners sometimes need prior permission to enter the territory. Travellers are not allowed to cross the temporary border between Indian and Pakistani Kashmir known as the "line of control".

Lahore, Pakistan's second largest city, offers historical splendour as a backdrop to emerging businesses. Try to visit the shrines of emperor Jehangir and empress Nur Jehan, outside the city.

Karachi, in the south, is Pakistan's most urbanised city.

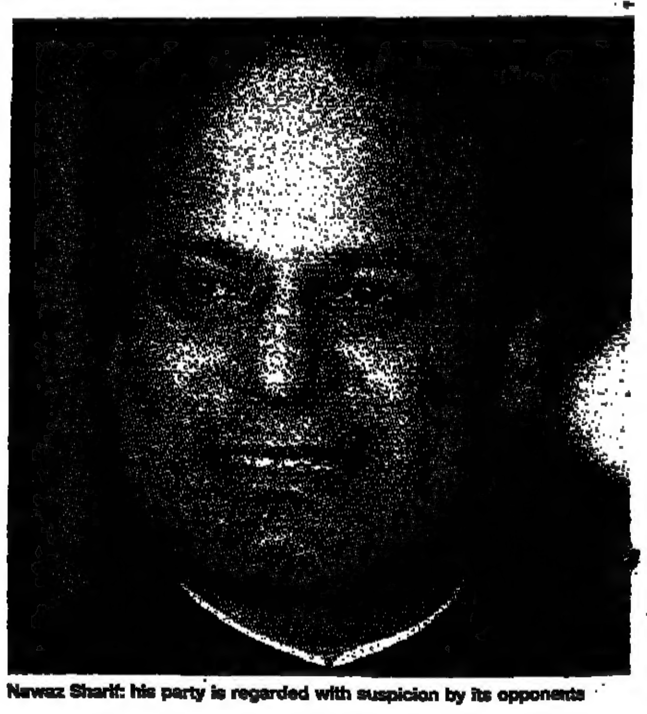
**Farhan Bokhari**

■ **Politics:** by Farhan Bokhari

# Young democracy takes root

## It will be a difficult task for leaders to inspire confidence in the political system


Benazir Bhutto: her party claims to be the flag bearer of democracy


Nawaz Sharif: his party is regarded with suspicion by its opponents

The low point of Pakistan's politics came when Zulfikar Ali Bhutto, the former prime minister, was hanged in 1979 after a controversial murder trial, two years after his removal from office in a military coup.

The prime minister's execution once again disrupted a troubled democratic legacy that has been repeatedly interrupted by the military, and it cast further doubt on a judicial system already suffering from an image of corruption and inefficiency.

As Pakistan commemorates the 17th anniversary of Mr Bhutto's death this month, its politicians are still dogged by the crucial issue of putting democracy back on the rails. The country needs to inspire public confidence in its leaders and the political system needs to be given legitimacy. But that is a difficult task.

Since independence 49 years ago, civilian governments have been in office for only 25 years in total. Those years of civilian rule have been tumultuous, largely because of frequent changes of government. Pakistan has so far seen 16 prime ministers, including Benazir Bhutto (daughter of the executed leader), elected for the second time in 1993.

Their average tenure has been around 19 months – or less than a third of the five-year terms for which they were elected. The only prime minister successfully to complete a term in office was Mr Bhutto, but he was hanged just two years after General Zia ul-Haq's imposition of martial law in 1977.

Gen Zia stayed in power for 11 years, partly because of heavy flows of western aid. The money was in support of Pakistan's backing for the Islamic mujahideen resisting the Soviet occupation of neighbouring Afghanistan.

Under Gen Zia, the concept of a free democracy was replaced by that of a "controlled democracy"; he even held national elections in 1985, in which political parties were barred from the contest and candidates were allowed to run only as individuals. Although Gen Zia transferred power to a new cabinet and a civilian prime minister, he had by then assumed widespread powers for himself as president after amending the constitution.

Neither the new government nor the general survived long. Gen Zia sacked the government of Muhammad Khan Junejo, the prime minister, in 1988. Gen Zia himself died in a mysterious plane crash in August that year, creating for the first time in over a decade a genuine opportunity for civilian politicians to run for government.

His departure from the scene not only led the country back to civilian rule. It also coincided with the new wave of democracy in many parts of the developing world, which considerably weakened the ability of the Pakistan's generals to re-impose military rule.

Still, Pakistan's return to democracy has not been entirely smooth. Since 1988, Pakistan has seen seven governments and three national elections. Such frequent changes have only added to uncertainty over the country's political system.

Besides, politics remains heavily polarised. In many circles Nawaz Sharif, the opposition leader and former prime minister, is still seen as a protégé of the late Gen Zia. Mr Sharif's PML (Pakistan Moslem League) party is regarded with suspicion by its opponents for maintaining close contacts with senior retired army officers who were associated with the former military regime.

Ms Bhutto's ruling PPP (Pakistan People's Party) claims to be the flag bearer of democracy, largely because many of its members were victimised by the military regime.

In reality, these differences are less significant than they appear because each party has gathered significant support in other areas. Mr Sharif has managed to carve out a fairly large following among businessmen and shopkeepers. Much of Mr Sharif's support comes from the fact that he is the first businessman to have ruled the country; he was prime minister from 1990 to 1993.

The extent of Ms Bhutto's support from the rural areas, the traditional vote bank of the PPP, is not entirely clear. The PPP, and a breakaway faction of the Moslem League which deserted Mr Sharif before the 1993 elections, together won a large number of seats in the countryside. But opposition leaders say that rural sentiment has turned against the government due to sharp rises in the price of fertilisers and electricity during the past three years.

While Pakistan's young democracy takes root, the country's politicians are confronted with a number of pressing issues. The gap between the rich and the poor has widened, and many of the poor do not have proper access to basic needs such as food, shelter, health care and clean water. An annual population growth rate of more than 3 per cent is creating more mouths to feed than the country can afford. And rampant corruption eats away at public faith in politicians.

Politicians, generally the scions of powerful rural families, are often seen as local lords who drive around in luxurious vehicles, chatting into mobile telephones and using their influence to violate laws with impunity.

"Our politicians are not politicians," says Asma Jehangir, Pakistan's leading human rights lawyer. "They are either feudal or come in to politics through some other powerful connections."

But there are also signs of hope. The return to civilian rule has encouraged judges to deliver judgments that are unfavourable to the government, something which very few dared do during the military's regime. In one such recent judgment, the supreme court decided that the government had no right to appoint judges without consulting the chief justice of the Supreme Court.

Among other signs of improvement, the press has become independent and fiercely attacks government on policy issues.

Finally, the army shows few signs of wanting to take power, in spite of the widespread belief that the two most important changes of government in the past eight years could not have taken place without the consent of the generals.





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